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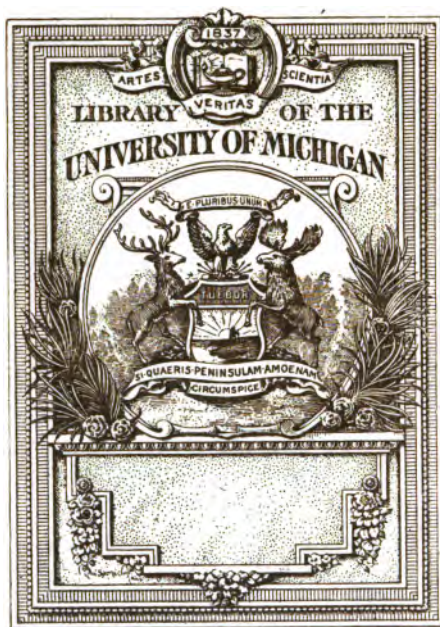
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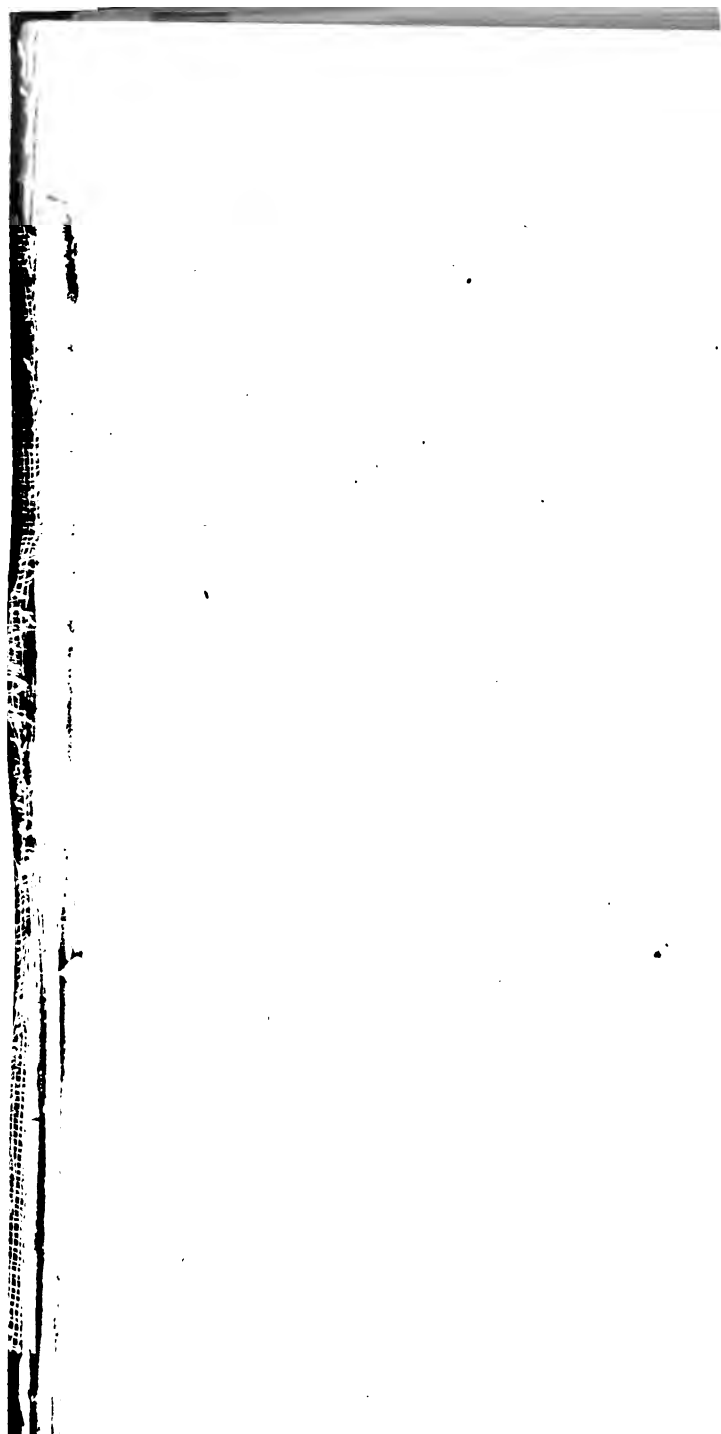
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**INCOME**



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# INCOME

AN EXAMINATION OF THE RETURNS FOR  
SERVICES RENDERED AND FROM  
PROPERTY OWNED IN THE  
UNITED STATES

BY

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DEDICATED TO THREE MEN WHO GRASP  
THE REAL SIGNIFICANCE OF THE  
CONFLICT BETWEEN SERVICE AND  
PROPERTY INCOME,—

JOSEPH E. COHEN,  
J. A. HOBSON,  
EDWIN CANNAN.



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## PREFACE

AMONG all of the basic principles of economic life, none is more vital than this—that every able-bodied adult should have a job; that he should work at the thing for which he is best suited and best fitted; and that he should be paid the full value of what he produces. Society is built upon the idea that the people who can shall contribute their time and energy to the advancement of those things in which society has an interest.

Modern economic discussions are being turned toward the conservation of human values. Thinking men realize that the wealth of nations rests upon the fiber of the people; that the progress of civilization is built out of service.

Service is of preëminent importance. In the home, in the street, in the shop, in the mine, on the railroad, the greatest single law of life is the law of service—doing for others and sharing with others the burdens and rewards of effort. The work of the world, directed and performed by the hand of man, should have as its final object the greatest service to mankind, or, as Ruskin put it, “the largest number of happy and healthy human beings.” Above the rights of property there must be placed the rights of humanity.

The industrial system, like every other social institution, must serve the human race, and serve it efficiently. To-day some of the chief questions of eco-

nomics involve the method of apportioning income. Shall the values created by industry go to those who serve? There seems to be no other basis upon which economic society may finally rest.

An effective system of income distribution will recognize service as the greatest economic asset; will reward service with the values that service creates. Until those who serve receive a return equal to the value of their service, the questions of income distribution can never be settled, because until then they never can be settled right.

SCOTT NEARING.

UNIVERSITY OF PENNSYLVANIA,  
*March 12, 1915.*

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## INTRODUCTION—THE MEANING OF INCOME

### *I. Personal or Material*

THE questions which are involved in any consideration of income bear a peculiarly intimate relation to every man's thinking. All people depend upon income in some form. All are involved in some income-yielding or income-enjoying pursuits. At one time or another everyone has found it necessary to think about income, and although this thinking ordinarily takes an intensely personal form, it bears all of the connotations of real thought. Since no one can escape the subject, all are more or less familiar with it.

While no hard and fast definition of income can be written, it is possible to begin with a definition which will offer a satisfactory working basis for a study of American conditions. Income may be viewed either from a personal or a material standpoint. Personally considered, income is a psychic phenomenon. People have certain wants which reveal themselves in a desire for food, shelter, finery, sight-seeing, entertainment. These wants are satisfied by the use of goods and services—bread, overcoats, lace, travel, and moving pictures. The satisfactions or enjoyments secured from these goods and services constitute psychic income.

The idea of psychic income has been stressed in Europe by the Austrians, who have succeeded in

reading into political economy a very large non-material element. It has likewise been made the subject of wide-spread discussion in America by such men as F. A. Fetter and Irving Fisher, as well as through the emphasis which Professor Patten has laid on consumption as the logical goal of economic endeavor. Fetter and Fisher call attention to the subjective or personal reactions which the enjoyment of economic goods and services affords. Professor Patten points to the fact that consumption is the logical goal of production, and that therefore the study of political economy, far from ending with the processes of wealth creation, really centers about the use of wealth, or consumption. Although their objective point is somewhat different, the two lines of arguments are essentially parallel. Both emphasize the psychic basis of income as existing in the satisfactions derived from consumption.

The concept of income as a psychic phenomenon is probably carried into the realm of economic discussion more thoroughly by Professor Fetter than by any other American economist. His viewpoint is epitomized in one chapter of his "Principles" (chapter 6.)<sup>1</sup> Heading the chapter "Psychic Income," and dividing it into two parts, one dealing with "Income as a flow of goods" and the other with "Income as a series of gratifications," Professor Fetter restates, in admirable terms, the well-known arguments in favor of dealing with the "subjective" or personal relations of income, rather than with the "objective" or material relations.

<sup>1</sup> "Principles of Economics," F. A. Fetter, New York, The Century Co., 1905.

Professor Fisher devoted a considerable portion of his book on capital and income<sup>1</sup> to a statement of the arguments in favor of regarding income as a "psychic stream of events."<sup>2</sup> Professor Fisher uses the terms "subjective" and "objective" to differentiate the two kinds of income. "The two kinds of final income, the physical and the psychical, are both legitimate in their proper spheres. Usually the physical and the psychical are equal to each other in value."<sup>3</sup> Psychic income is the final form that income must take, however. "The result has been to lead us inevitably to the psychic stream of events as final income, all of the agreeable items being on the credit side, and the disagreeable ones on the debit side."<sup>4</sup>

Theoretically, the emphasis laid upon psychic income seems to be justified. Practically, it is impossible, at least in the present stage of human knowledge, to find any satisfactory measure for psychic values. Therefore while the psychic concept affords an excellent basis for theoretical analysis and synthesis, it is in no sense a point of departure for the study of income facts.

There have appeared, up to the present time, a number of treatises dealing with the theoretical aspects of the income problem. Among the long list of such books, the reader is astonished at the comparative dearth of facts. Theories have been multiplied; explanation has succeeded explanation; hypothesis has been heaped upon hypothesis; yet when

<sup>1</sup> "The Nature of Capital and Income," Irving Fisher. New York, The Macmillan Co., 1906.

<sup>2</sup> *Ibid*, p. 177.

<sup>3</sup> *Ibid*, p. 169.

<sup>4</sup> *Ibid*, p. 177.

all is said, the theorists are no nearer a substantiation of their theories. A new income study, to justify itself, must therefore present an array of facts rather than of theory.

Practically there is no way in which psychic value can be measured or popularly interpreted. The investigator who is interested in the facts bearing on income is necessarily forced back to a consideration of goods and services as a much more tangible income measure. Even goods and services are an inadequate measure for income because so many of them are rendered gratis.

Certain goods and services can be measured. The clothes which a man buys at the store; the coal which he purchases; the food which comes from the huckster and the grocer; and the building in which he lives are tangible parts of income. These things can be valued in terms of a common value denominator.

There are, on the other hand, a vast number of goods and services which are derived in a less direct and far more inscrutable manner. These goods and services constitute an essential element in psychic income; yet they are in their very nature unmeasured, and for the most part, unmeasurable. Most families enjoy an income of goods which are domestically produced. The family in a small town has its kitchen garden, and its domestic animals; the wife contributes the cooking of food, and the making of clothes. Besides these common home industries, there are numerous other special forms in which families provide themselves directly with the things which they need. The same holds true of services which are secured through the family. At all times, the domestic

workers, usually the women of the family, render services to the entire household for which they are never compensated. These services are the essential element in real household income, yet they are of such a nature as to be extremely difficult of measurement. In the same class are the services which are rendered by the members of a family or by friends during ill-health or disability of any kind. Again, there is the great body of public services. The streets are paved, lighted, and safeguarded. Resources are conserved, public hospitals, schools, and similar institutions are maintained. In scores of ways the community adds to the income of its citizens. To be sure, the taxes paid directly or indirectly by the citizens are the basis for this income. Nevertheless, the income as well as the taxes are parcelled out very unequally, and there is no immediate relation between the tax paid and the income received.

Professor Smart goes even further in his analysis of those income items "which escape both notice and assessment."<sup>1</sup> He mentions in this connection:

- (1) Unpaid services, particularly those of women.
- (2) Growing leisure, where work is hard and uncongenial.
- (3) Congenial occupation as a wealth in itself apart from its product.
- (4) Personal relations as a by-product.
- (5) New kinds of goods and improved quality not represented in price.
- (6) Property yielding no revenue and general reconstruction of environment.

<sup>1</sup> "The Distribution of Income," Wm. Smart. London, Macmillan & Company, 1899, Chapter XI.

(7) Freedom and good government.

Professor Smart has listed forms of services not ordinarily thought of as income, yet, since they play an essential part in creating satisfactions, they may be justly so considered.

Income in the form of goods and services is of two clearly marked kinds—that which may be computed in terms of practical bookkeeping, and that which may not be so computed, because there is no practicable way in which the values can be measured. Both the unmeasurable and the measurable factors constitute an essential part of income, yet it is impossible in the present stage of economic science to say what part.

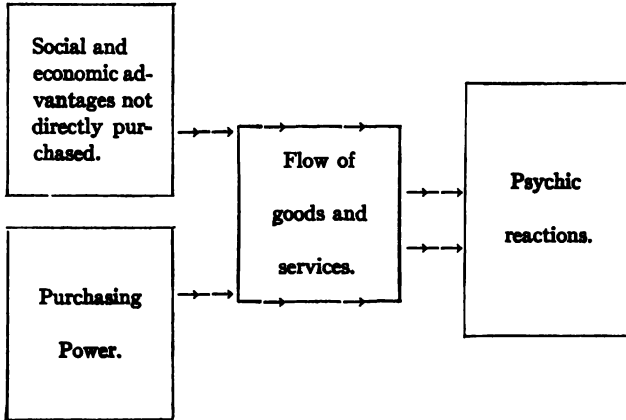
A student of income facts must confine his activities largely to searching out such data as appears in the bookkeeping variety of goods-and-services-income. However alluring the more theoretical phases of the subject may be, they must necessarily be left to the treatise on theory.

## *II. Income as Purchasing Power*

The obvious limitations on the use of "income" as denoting a flow of goods and services to a consumer, lead, perforce, to the discussion of income in the most practical of all terms—the terms of purchasing power. Psychic satisfactions, units available for consumption, and goods and services, are all far more complete income-measures. Each would provide an admirable basis for an income analysis, yet no one of them will stand the test of practicability in a study of income facts.



A simple diagram will clarify the discussion.



The psychic reactions, the objective point and the resultant of all forms of income, are undoubtedly the logical subject of income study. Present-day metrics afford no accurate measure of psychic enjoyments, hence the economist has sought to define income in terms of the flow of goods and services which leads to these psychic enjoyments. Even that definition will not afford a working basis for a fact study of income, because the goods and services are derived from two sources. The first, including the social and economic advantages for which no money equivalent is paid, or can be computed; the second including that purchasing power, or exchange value, which is definitely measurable. It is in terms of this last category that a fact study of income must be made. The other income forms "which escape both notice and assessment," may be large or small in amount, and in prom-

portion. From their very nature, they can form no part of an income fact study.

The resort to a definition of income in terms of purchasing power is necessitated, in a study of income facts, not only by the impossibilities of accurately limiting the meaning of income, but likewise by the general practices of the community. Among the men and women who carry on the transactions of the world, the term "income" means neither satisfactions nor consumptions units. When they say "income," they mean money which may be spent for goods and services. The man on the street interprets "income" to mean "purchasing power." Accounts are kept with the same thought in mind. Since the individuals in present-day society secure their living by exchanging money for commodities, they naturally fall into the habit of speaking of the money available for expenditures as income. Bookkeeping and the common experiences of life alike point to a definition of income in terms of purchasing power.

Even when defined as purchasing power, the term "income" is not yet free from serious limitations. Professor Cannan in a book which strikes perhaps the newest note in the income discussion, contributes a chapter on "Continuous Power to Demand, or Income,"<sup>1</sup> in which he lays great stress upon this fact. He writes: "In order that any person or institution may be able to control production continuously by means of demand, it is necessary that he or it should have a continuous supply of money to spend. Such a continuous supply is provided, not perhaps exclusively but at any rate principally, by 'income,' in the sense

<sup>1</sup> "Wealth," Edwin Cannan, London. P. S. King & Son, 1914.

in which that word is ordinarily used.”<sup>1</sup> After pointing out the development of income relations with the growth of the modern productive system, and the necessary changes which these developments bring about in the popular feeling toward income, Professor Cannan seeks to limit his discussion to a regular flow of goods. “The term income,” he says, “as commonly used includes in addition to money-income an estimate of the money-value of incomings of such other commodities and services as are ordinarily bought and sold and can consequently be valued with substantial accuracy.”<sup>2</sup> Here the measurability, and not the intrinsic characteristic, is made the criterion of judgment.

There are still other limitations on the use of the term “income” that cannot be passed over. Even the money does not take upon itself the characteristics of income, according to Professor Cannan’s concept of the term, unless its receipt be fairly regular. “No one thinks of including what he inherits or receives by bequest in a statement of his income. The reason for this seems to be that the word ‘in-come’ does not suggest anything coming in casually once for all, but some continuous receipt which can be conceived as a rate per annum, although no doubt often a fluctuating rate.”<sup>3</sup> “Gifts from the living are excluded from the calculations of income just like bequests from the dead.”<sup>4</sup> Professor Cannan’s “income” is a real stream or flow with no hocus-pocus, or make-believe.

Having disposed of the problem of incidental re-

<sup>1</sup> “Wealth,” Edwin Cannan, London. P. S. King & Son, 1914, p. 139.

<sup>2</sup> *Ibid*, p. 143.

<sup>3</sup> *Ibid*, p. 145.

<sup>4</sup> *Ibid*, p. 146.

ceipts from such sources as bequests, gifts, and the like, Professor Cannan takes up "the undoubted sources of income, the possession of property and the performance of labor." Here again, Professor Cannan insists that "a large amount of money received is by common consent excluded from the category of income."<sup>1</sup> "The more or less steady flow from the possession of property in order to be called income must ordinarily be of the nature of profit, that is to say, it must not include such part of total receipts as are necessary in order to pay necessary expenses, including the maintenance of property unimpaired."<sup>2</sup> A manufacturer naturally deducts from his gross receipts a sum sufficient for the upkeep of the business. "Even the rent of lands and houses is not all income, inasmuch as the contracts between landlord and tenant do not usually bind the tenant to pay everything necessary for maintaining the land and house in an unimpaired condition."<sup>3</sup> "Maintenance of the property unimpaired" is an acknowledged charge against gross income, and must be deducted before the amount of net income can be determined.<sup>4</sup>

<sup>1</sup> "Wealth," Edwin Cannan, London. P. S. King & Son, 1914, p. 147.

<sup>2</sup> *Ibid*, p. 148.

<sup>3</sup> *Idem*.

<sup>4</sup> It is interesting to note that, in modern business, this principle is carried so far that an industry, like a steel manufacturing plant, writes off a fund for the amortization of its mining properties, so that at the end of 20 years, when a mine that cost a million dollars is exhausted, a fund of a million dollars will be on hand to acquire an adequate substitute. The Bethlehem Steel Company, in its annual report for 1913, shows an item of \$1,070,229.89 for "Extinguishments of Mining Investments, Amortization of Patents, etc.;" an item of \$4,677,847.48 for "Depreciation of Other Properties and

The term "purchasing power" patently fails to include all of the ways in which people secure the goods and services which satisfy their wants. However, the incomes derived through purchasing power obviously include the great proportion and the measurable proportion of individual or family incomes. Hence it is, in an income fact study, that purchasing power is used as the basis for income computations.

### *III. Wages, Standards, and Incomes*

The present study is an outcome of necessity rather than of choice, because it is the product of a line of statistical investigation, which has led inevitably to an inquiry into the apportionment of income.

A study of wages<sup>1</sup> showed what amounts were being paid to wage earners. The wage scale is the product not of individual choice or initiative, but of the successive bargains made over a long period of time between wage earners and employers. Hence a statement of the wage scale reveals the income probabilities which an individual faces when he applies for a given job.

A study of standards<sup>2</sup> of living based on the idea that there is an ascertainable minimum of decent

Accruing Renewals;" and an item of \$2,174,289.92 for "Special Reserves for Extraordinary Losses and Other Direct Charges to Surplus." The net earnings from January 1, 1905, to December 31, 1913, from which these deductions were made, amounted to \$36,649,696.51. Ninth Annual Report of the Bethlehem Steel Corporation, year ending December 31, 1913, p. 9.

<sup>1</sup> "Wages in the United States," Scott Nearing. New York, Macmillan Co., 1911.

<sup>2</sup> "Financing the Wage Earner's Family," Scott Nearing. New York, B. W. Heubsch, 1913.

living which might be scientifically measured, showed that the wages paid under the existing wage scale were insufficient, in a very considerable proportion of the cases, to enable the adult male wage earner to maintain such a standard of decency. The facts on this head seemed incontrovertible.

Other studies have showed beyond a possibility of question that a considerable proportion of the wage earners' families are living below a standard of decency.<sup>1</sup> These facts make it apparent that sober, industrious workmen are receiving incomes that are inadequate to maintain their families on a decent standard. At the same time, the cost of living is increasing faster than their wages, inadequate though they seem to be.<sup>2</sup> Inevitably, the question arises, "Do these low standards of living exist among the workers because they do not get a fair share of the products of industry, or because there is not a sufficient amount of industrial products to maintain them on a decent living basis?"

The present study is devoted to a very practical question of fact. The world wishes to know how the values created in the productive process are actually divided up among the members of the community. No theory of distribution can solve such a problem, and it would seem that no theory of distribution will be reduced to its final form until that problem is solved.

The issue, for the purpose of the present discussion,

<sup>1</sup> "Financing the Wage Earner's Family," Chapter I; also "Misery and its Causes," E. T. Devine. New York, Macmillan Co., 1909.

<sup>2</sup> "Reducing the Cost of Living," Scott Nearing. Phila., G. W. Jacobs & Co., 1914.

can be stated in this form: As the result of production, in a certain line—steel rails, shoes, washing powder, or what you will—economic values equivalent to \$100 are created. What happens to these values after the processes of distribution set in? A part of the \$100 of value goes to laborers and managers in return for the services which they have rendered in production. In what proportion is this labor return divided among those who have rendered service? A part of the \$100 of values goes to the owners of property. How much of the \$100 is thus disposed of?

A consideration of the facts of distribution makes these the real matters of issue. The industrial process is creating values. Values are going to certain groups and to certain individuals. What individuals are receiving values and how much of the values are actually falling to their share?

These questions will not be finally answered for many a long day. Nevertheless, the facts at hand make possible a tentative answer that should mark one step in the solution of the perplexing questions which the use of wealth and of income involve.





## INCOME



# INCOME

## CHAPTER I

### THE WHENCE AND THE WHY OF INCOME <sup>1</sup>

#### *I. The Relation of Income to Effort*

THE term "income" as used in this study will mean the flow of purchasing power which comes with reasonable regularity to any individual. Despite the drawbacks to such a definition, noted in the introduction, it seems to afford the most workable basis for a study of the income facts.

There are two questions, both of them fundamental to any discussion of income, which must be disposed of before the income facts can be examined. The first of these questions deals with the sources from which income is derived; the second, with the reasons for the payment of income. Both questions assume a prominent place in any income discussion.

The transformation which followed in the wake of the industrial revolution created an essentially new line-up of income sources. Income in the past was usually a direct return for effort. Primitive men took their food and clothing directly from nature. They shot squirrels in the woods and ate them, killed deer and made their skins into garments, picked berries

<sup>1</sup> Portions of this chapter have appeared in the *American Journal of Sociology*.

and fruit, and dug roots. During the time when men lived a true hand-to-mouth existence, depending wholly upon the natural supply of food and shelter, there was an immediate relation between the effort that a man expended and the income that he secured in return for that effort.

A society which depended primarily upon agriculture for its food supply experienced a like relation between effort and income. So long as there was plenty of uncultivated land, the man of energy and thrift could secure a piece of it for himself, and by dint of hard work and care, he could obtain a living for his family in fairly direct proportion to the amount of work which he was willing to do. When all of the desirable pieces of Mother Earth are taken into individual possession, the direct relation between effort and income gives place to an indirect relation in which land ownership becomes a source of income, irrespective of any effort expended upon it. Land scarcity enables the man who owns a piece of it to exact a rent from the man who wishes to use it. Rent can exist only where the amount of desirable land is limited. If land were as abundant as air and sunshine, the landlord might wait to eternity before his land would yield him a penny.

The entrance of landlordism does two things. On the one hand, it enables the landlord or owner of land, to secure income without the expenditure of effort.<sup>1</sup>

<sup>1</sup> The landlord may have expended effort to secure the land. That is not necessarily true, however, since he may have obtained it by gift or inheritance. His power to demand rent for land does not depend upon the manner of obtaining it but upon the possession alone.

On the other hand, it compels the tenant to forego that part of the product of his effort which he turns over to the landlord in the form of rent.

Wherever a close connection exists between effort and income, a strong incentive is furnished for the expenditure of effort. If a man can see plainly that his work will bring an immediate return, and a return in proportion to the amount of work which he does, he will be stimulated to work hard for long hours and to employ his best craftsmanship.

## *II. Money as Income*

Money cannot be eaten, or worn, or enjoyed in any conceivable way except by the miser who loves the clink of coins; yet modern income is universally measured in money terms. Before a man can secure his meat, vegetables, or clothing, he must sell something which he possesses (that something is usually his labor), in exchange for which he receives a money wage that may in turn be given for the things which he desires.

While income was received in the form of potatoes, apples, and fatted calves, it was very easy to see the sources from which income came. There were few complexities in such a system of economics. The man labored; he received a return in proportion to his labor. Whatever the character of his income, the source from which it was derived could not be questioned.

The complex, highly specialized system of industry which modern society has evolved makes the analysis of the sources of income a difficult one. It is in the

modern industrial regime that men receive money, and not goods, in return for their labor. Here it is that they are compelled to exchange their money income in order to secure their real income, the food, clothing, and shelter which they require.

Modern industry, in comparison with primitive industry, is co-operative to an extreme degree. The conditions of highly evolved industrial co-operation under which each man makes one specialized product, deny to the individual worker an opportunity to create the things which he needs to live. The butcher in the pork-packing establishment cannot raise vegetables or make clothes. The lathe hand in a locomotive works turns out nothing at all that can be of use to his family. Each specialized worker performs his allotted task, with the understanding that such products of other specialized workers as are needed for the support of those dependent upon him will be forthcoming in exchange for the wages which he receives from day to day.

### *III. The Sources from which Income is derived*

Despite the complexities which the intricacies of modern economic relations create, it is possible to analyze the sources of income in a sufficiently simple manner. If the analysis begins at the goal of the economic processes, there is, first of all the consumer, who wants certain things. He has desires which can be satisfied only through the possession of economic goods. He desires, for example, to place a ton of coal in his cellar so that he may be kept warm during the ensuing winter. The consumer rather than

be without the coal, gives the coal dealer five dollars. In return for these five dollars, the coal dealer places a ton of coal in the consumer's cellar. The economist therefore says that the coal has a value of five dollars, or that values equal to five dollars have been created. What happens to the five dollars which is an equivalent of the values possessed by the coal? The consumer, by exchanging five dollars for a ton of coal, has played a part in setting the economic machinery at work. In some way, the money which he has exchanged for the coal will be used to recompense those who were responsible for placing that ton of coal in the consumer's cellar.

The five dollars, when apportioned among those who are responsible for the production of the coal, will constitute a part of their income. Therefore, by tracing back the coal to its source, and discovering how it came into being as a commodity, a very good idea of the sources of income may be obtained.

There is a demand for coal because there is a demand for heat and power. Coal furnishes both, ministering to men's wants directly through the provision of heat, and indirectly through the development of power. Therefore since the discovery of the availability of coal for these two purposes, the known existence of a vein of commercially available coal gives the ground in which the vein runs a value commensurate with the value of the coal in the vein. The land in which the coal vein runs is valuable simply because the coal is there. No human hand need have touched the land or the coal, further than to ascertain its presence, nevertheless value attaches to the land. Coal is a natural resource which men have learned to

use for the satisfaction of their wants. Like all other natural resources, under similar circumstances, it possesses a recognized value.

Clarity of discussion will be secured if the problem is concretely stated in the terms of one man's experience. A farmer in central Pennsylvania is engaged in raising general farm crops. His farm is an indifferent one, from which three generations of rather determined Yankees have scratched a reasonably good living. The land is worth \$20 an acre—a hypothetical value, blanketed indiscriminately over land and buildings.

When the present holder of the farm took the place from his father, he fully expected to "farm it" for the rest of his days. Indeed, he had no other idea, since his training and his inclination alike led him to follow in his father's footsteps.

Through some chance the farmer finds that he has, under his land, two thick veins of high grade bituminous coal. The veins are rich; the demand for coal is brisk; and he decides to open a mine.

The farmer is a poor man, however. He discovers, on investigation, that it will cost several thousand dollars to drive a shaft, erect machinery, and run a spur from the local railroad to the mine. He has no funds sufficient for such an undertaking; but a neighboring farmer, thrifty and prosperous, offers to advance the capital required for the opening of the mine. Here, then, are two factors in the mining operation—the vein of coal supplied by nature and funds supplied by a neighbor sufficient to put the coal on the market.

Neither the coal land owner nor the farmer with the capital have any intention of mining the coal them-



selves. In the first place, they know nothing about mining, and in the second place, they do not like the idea of spending a large part of their waking hours underground. Besides, the process of running a coal mine is one that takes more than two men. Help must evidently be secured from a number of men in the neighborhood who can be persuaded to join in the enterprise and to do the actual work of mining. These men have no land or capital of their own. They have families to support, however, and they are perfectly willing to give their time and energy to the task of digging the coal. They will drive the shaft, put the machinery into place, and work in the mine, provided they are paid for their services.

One difficulty still remains. The farmer who owns the coal land, the farmer who advances the funds, and the neighbors who offer to work in the mine are ignorant of mining. The farmer who is opening the mine therefore applies to the president of a school of mines, who refers him to a man trained in the technique of mine construction. This man likewise agrees to come for a consideration and superintend the enterprise. The farmer opens his land for the operation; the capitalist advances the funds; the superintendent directs the laborers; the laborers drive the shaft, lay the track, timber the mine and dig out the coal. In the course of a few months the mine is in full operation. During that time, both superintendent and laborers have been paid for their services. The owner of the farm and the owner of the funds have as yet received nothing.

The time has come, however, when the mine begins to realize on the investment. Each day a dozen cars

of coal are hauled away from the mine's mouth, taken to a neighboring city and dumped in the yards of a coal dealer. This coal is then taken from the yards to the people who have bought it. Some of them are householders who wish the coal because it supplies heat; some are the owners of office buildings who wish the coal because it supplies heat and light; and some are the owners of factories, who convert the coal into the power which drives their machinery, and enables them to produce paper, pens, breakfast food, radiators, and other commercial articles.

The coal has found a market. Among other tons, the one with which this discussion began is sold, and the returns are distributed. The coal dealer, his teamsters, and helpers; the railroad, with its employes; the banking institutions, with all of their ramifications; and the mining operation itself secure a part of the five dollars which was paid out for the ton of coal.

In order that the illustration may still be concrete and apt, it is necessary to inquire, in detail, what has actually happened at the mine. Labor has taken the coal out of the vein, and with the aid of machinery, and under the direction of the superintendent, it has placed the coal on the cars ready for shipment. In the vein the coal could satisfy no human want: in the coal-bin of the city consumer it serves as a guarantee against the severity of winter. The processes involved in the getting of the coal out of the ground and placing it on the railroad cars for shipment have therefore added to the value of the coal. Granted that value has been added to the coal, the question naturally arises, "who is reponsible for the addition?" The

owner of the farm did nothing except to grant permission for the use of his land. The fact that he owned the land, however, would give him a perfect right under his title deeds to refuse to allow any one to mine the coal. The man who advanced the capital ran a certain risk. The vein might have proved poor; or the market might have declined to a point where it would be unprofitable to mine the coal. Had either of these exigencies arisen, the investor of the capital would have lost a part or all of his investment. In the actual production of the coal, however, he played no more active part than that played by the landlord. He merely signed his name to a paper instructing the bank to transfer credit from his account to that of the coal land owner. The superintendent and the laborers are in a very different case. They have both devoted energy and time to the work of opening the mine, and their presence is still required for the operation of the mine. The landlord's title deeds provided a place for the operation of the industry; the capitalist's funds provided for the purchase of machinery and the hiring of labor; the time and energy of the superintendent and laborers got the coal out of the vein and placed it in the cars.

Each of the parties connected with this productive process demands a return. The landlord for the use of his land asks rent. Although he is no way responsible for the presence of the coal on his land; although he was using the land as a farm when coal was discovered on it, and although the land is still, for the most part, usable for farm purposes, the farmer asks a rent, or royalty, in proportion to the amount of coal secured from the land. The capitalist expects interest

for the funds which he advanced. These funds may have been the product of thrift and careful living; they may have been inherited; or they may have been borrowed for the occasion from some financial institution. Irrespective of the source of the funds, the capitalist demands and receives interest on his investment. The superintendent and the laborers for their services demand salaries and wages. They have invested in the enterprise the nerve, energy, and muscular tissue necessary to carry it to completion. Their return is a return for days of effort.

This illustration, though simple, typifies the means by which income is secured and paid in modern industrial society. As a matter of practice, the land owner usually buys the natural resource with a knowledge of its economic value. He secures his capital from a financial institution—a bank, trust company, or insurance company—which lends out money deposited with it by numerous small investors. Operations are begun by well-established concerns which have perfected the mechanism of production. Nevertheless, the principle of the coal illustration remains intact.

#### *IV. The Productive Processes and Economic Wealth*

All production is carried forward upon the resources of nature, by labor, with the aid of capital.

Every product of industry owes its origin to natural resources. The fields, the mountains, the water—some natural agent, was the starting point for each material good, on its way through the intricacies of the industrial system. Food, clothing, wealth in all its forms is derived originally from nature.

These natural resources are converted by labor with the aid of tools and machines into forms that satisfy the wants of the community. A brick is no farther economically from the clay bank, a chair is no farther economically from the forest, a steel rail is no farther economically from the ore bed than a ton of coal is from the vein in which it originally lay. The forces of nature working through the ages have created things which mankind needs. Human effort expended on these products of nature converts them into forms that are usable. The processes involved in this conversion are the processes of production. Out of those processes of the production of wealth, value arises.

There are many popular fallacies which must be overcome before men fully understand this relation. There is still a suspicion lurking in the minds of the community that money breeds money; that wealth can be created by some alchemy through the putting of pen to paper. People feel, in a hazy, indistinct manner, that there are ways, and known ways, in which values can be generated as acetylene gas is generated, by the combustion of some potent element.

All of the usable wealth in the world has been created in the same way that the values in the ton of coal were created. All usable wealth, no matter what its form, owes its value in the beginning to nature's gifts, and after that to the processes of production.

#### *V. The Monopoly Power of Ownership*

The value of coal properties and of coal lies in this fact,—that the owner of the coal properties demands and receives a rent for ownership alone. That is, he

can say to all mankind—"Pay me what I demand or let the coal stay in the ground." If he fixes his demand at a point where the coal can be used profitably, he receives the rent demanded, the coal is marketed, and the rent, be it large or small, becomes a fixed charge on the production of the coal. This rent charge exists because the monopoly power which the title to coal lands gives the land owner enables him to fix a price and to receive a return for his ownership.

The monopoly power which land ownership gives is apparent. The acre of wheat land in Dakota is valuable. Why? Because the number of acres of equally fertile land is less than enough to go around. Timber land is increasing in value with great rapidity. Why? Because the timber supply of the United States is being used up faster than it is growing. Warm breezes, rain, and sunshine are free to all without the payment of any return. Why? Because there is a sufficient supply of them to go around. Spring rain and sunshine participate in the production of wheat equally with soil fertility. The fertile soil possesses rent value because it is so limited in amount that there is not enough for all. Air and sunshine possess no rent value because they are so limitless in amount that after each one has secured his share an abundant surplus remains.

Should productivity or monopoly power be regarded as the chief reason for the payment of a return to land for its participation in production? If productivity is the answer, then unless the actual producing power of the land increases in bushels per acre, or tons per square mile, it should receive no increased return. If,

on the other hand, monopoly power is the source of the values which the land owner receives from the productive process, then an increase in population and an increase in the wants of people, irrespective of the productivity of the land, should increase the share which the landlord receives out of the products of industry. This latter hypothesis fits the facts exactly. The more people there are on a given area, the higher the civilization, and the more wants the people have, the higher will be the value of natural resources, and the greater will be the share which the owner of them receives, provided always that they are limited in extent and may be monopolized under the laws of private property. Rivers and harbors receive no share in distribution. Air and sunlight receive no share in distribution. Neither is subject to private property. Coal lands, timber lands, city land, agricultural land,—all of these forms of resources, which are the subject of private-property law, show increased values, and pay increased rent charges with the development of society and the increase of population.

The matter may be looked at from a somewhat different angle. Here is a ton of iron ore, and there a gram of radium. The iron ore is worth a few dollars; the radium is worth thousands. What is the cause of the difference in value? Nothing more than the scarcity of one as compared with the scarcity of the other. The gram of radium has not assisted in production any more than the ton of iron ore has assisted in production. Iron ore is more plentiful than radium, however; therefore the owner of the radium, because he possesses a thing which is very scarce and in great demand, may exact a high monopoly price for his

product. Natural resources share in the values created in productive processes only when they are subject to the monopoly of private property ownership, and only in proportion to the power of that monopoly.

### *VI. The Monopoly Principle Applied to Capital*

Capital, like land, is necessary to production. In the form of tools, it participates in the productive processes. In the form of money and credit, it likewise participates in the activities of industry.

The capitalist, by transferring credit at the bank, provided for the erection of the coal breaker. He did not erect the breaker himself; he merely gave into the hands of another a sufficient amount of purchasing power to enable him to hire the labor and buy the materials out of which the breaker was to be made. Nevertheless, the capitalist expected to receive, in return for the use of his credit a share in the products of industry.

The coal breaker standing alone could never produce anything. The production of coal presupposes the activity of labor. In one sense, therefore, the breaker is not productive. On the other hand, the presence of the breaker greatly facilitates the mining and marketing of the coal; that is, the breaker is an aid in production. The capitalist did not erect the breaker, however. He merely owned the power to erect a breaker, and by giving directions that bank credit be transferred and a breaker be erected, he secured that result. On what grounds does the capitalist take a share of the values created in the coal? Merely because the amount of capital in the community is



limited, and because the ownership of capital gives the owner the right to exact a return for his ownership.

The capitalist, like the landlord, receives a share in the products of industry. He receives a share because he owns capital. His share, moreover, is in direct proportion to the scarcity of capital in the relation to the demand for it. The monopoly power of ownership, and not productivity, determines that the capitalist shall receive a share of the values created in industry.

### *VII. Labor Monopoly as a Determiner of Wages*

Labor is necessary to production. Labor supplies the motive force which animates industrial activity. Labor is the energizing and directing influence in the productive processes. Used as a term covering all forms of productive effort, labor is the life force of the productive system. The landlord and the capitalist shared in the products of industry because of their ownership of land and capital; labor shares in the products of industry because it is expending energy on the industrial processes. Thus rent and interest appear to be a return for the ownership of wealth, while salaries and wages are a return for the expenditure of energy.

The amount received by labor for its share in production, like the amount of rent and of interest, is determined by the extent of its monopoly power, or by its scarcity. The unskilled laborer in a section of the country where labor is very scarce receives a given wage. In another section of the country, where immigrants compete fiercely with one another for an

opportunity to work, a laborer expending exactly the same amount of energy and producing the same commodities, will receive perhaps a half or two-thirds of the wage paid to his fellow in the district suffering from labor scarcity. On the other hand, an unskilled laborer bargaining individually with a great corporation or a large employer, is at such a woeful disadvantage that he can receive a wage little, if any, above the bare cost of subsistence. Organized into a powerful union, this same laborer can add perhaps fifty per cent to his wages. The experience of the building trades in various cities where there are unions and where there are not unions, amply demonstrates the difference between the two groups of men. The man who can draw brilliantly, and in a style which is readily demanded by the public, secures an extremely high wage for writing advertisements. If there were ten men of equal ability clamoring for this position, it would pay a bare pittance. Witness the high returns to advertisement writers, and the low returns to poets, both groups of men having equal skill in their crafts. The wages of labor are returns in proportion to monopoly in exactly the same sense that the interest on capital and the rent on land are returns to monopoly power.

Heretofore, economics has distinguished between landlords, capitalists, and laborers, for the very absurd reason that at some time in the past under an agricultural civilization, such a classification was supposed to have been accurate. Such a distinction was never particularly valid. Its greatest justification lay in its traditional origin. It was, moreover, an objective distinction. The same man might be a capitalist and

a landlord. Indeed, according to the writings of the later economists, he might be a capitalist, landlord, and laborer, too, paying himself rent and interest in addition to wages.

The time has come when a new classification of the reasons for paying income must be formulated. This classification will be based on function rather than on tradition. It will be made personal and concrete, rather than impersonal and abstract.

The new classification, instead of contrasting the returns paid to the various forms of wealth and to those who expend energy in production, will make an alignment between the returns paid to the owner of wealth, on the one hand, and the returns paid to those who expend energy, on the other. That classification exists in fact in the contrast between property income (the income from property ownership) and service income (the income from human effort).

The distinction between property income and service income measures the relation of the income-earner as an individual to the productive process. The capitalist and the landlord receive returns for the ownership of property; they therefore receive property income. The laborer receives returns for the expenditure of energy; he therefore receives service income. The distinction is not absolute. The amount paid to the laborer will vary with his monopoly power, just as the amount paid to the landlord and the capitalist vary with their monopoly power. The classification is, however, more accurate than the old one, in the sense that it applies more nearly to American conditions, and it is more absolute in the sense that it recognizes the forms in which income is now paid.

## CHAPTER II

### SERVICE INCOME AND PROPERTY INCOME <sup>1</sup>

#### *I. Income and Special Privilege*

VALUES are created in the industrial process and distributed in the form of income to the various members of the community. Such an axiomatic statement is ordinarily accepted without question. There is far less unanimity of opinion, however, regarding the categories in which those who receive income belong.

The old classification of income or distributive shares into rent, interest, wages, and profits, has lost its force with the disappearance of a distinct landlord class, and the substitution of highly paid salaried officers for the entrepreneur. The changes in the methods of industry necessitate a change in the statement of what happens to industrial values after they reach the distributive stages. The discussion of economic questions bearing upon the distribution of income would be greatly facilitated if a classification could be established of the recipients of income that would conform in some measure to the facts of distribution. The distinction between income as a return for services, and income as a return for property ownership, seems to offer such a classification.

<sup>1</sup> Most of the material in this chapter appeared in the *Popular Science Monthly*.

This distinction has the advantage of an historic as well as of a current justification. A definite relation exists in all primitive societies between the expenditure of energy and the income derived as a result of such energy expenditure. The clever hunter came home with game. The dexterous woman had mats and leather shirts to show for her toil. Even the spoils of war were hard-earned. They represented privation and exertion of the most extreme kind. Among primitive men income was, for the most part, earned by effort. Men and women expended time and energy, in return for which they enjoyed the fruits of their toil.

The development of civilization has uniformly led away from this direct, primitive relation between effort and income. Systems of various kinds have been devised whereby one man might live upon the proceeds of another man's effort, so that the clever and far-seeing members of the group gradually entrenched themselves in a strategic position from which they could exert a power that would make them parasitic on the others. Social organization led to economic parasitism.

Economic parasitism, in its most extreme form, is based on chattel slavery; more highly developed, it is built upon land ownership; in its still higher forms, it fastens itself upon the social body with the strong bonds of capitalism. Whatever its form, its principle is the same.

The pages of history may be searched in vain for the records of a civilization which did not evolve some device whereby the strong or the astute could live at the expense of the weak and the less able. The para-

sitic class has always bulwarked its position by the ownership of something. The land, which was originally common property, was gradually absorbed by a small landholding aristocracy or oligarchy, which was enabled by the possession of property titles, franchises, and special privileges to enjoy the fruits of other men's labor. As social organization has grown more complex the opportunities for parasitism have become greater. In primitive society, the power of the parasites was ephemeral. They held their prerogatives by might. For them, eternal vigilance was the price of living at the expense of the workers. As civilization advanced, the spiritual as well as the physical forces of the world were called upon to place additional controlling power in the hands of the ruler. The Church held out the threat of hell. The State, with gallows, jails, and stocks drove the unfortunate subjects into line. The name "tax gatherer" grew to be a name of reproach, because tax gathering was the outward manifestation of organized, legalized, sanctified, and time-honored exploitation; it was the process whereby the few who did not work lived at the expense of the many who did work.

Let no one argue that because historic civilizations have, without exception, developed economic parasitism, therefore economic parasitism is a necessary accompaniment of the development of civilization. No such black prophecy is reflected from the pages of the past. History contains, at most, a warning, which they who would learn do well to read.

The civilization of the West has marked its goal plainly. It aims at universal opportunity. There is no thought of equality, but there is a very strong sen-

timent in favor of equal chances for men and for women of all social classes.

The civilization of the West has been erected upon the theory of the validity of effort. In its very inception opposed to parasitism,<sup>1</sup> the Western World has organized a sturdy dynamic civilization built upon the individual and co-operative activities of its individual members. Without effort, no civilization. Without effort, no progress. Effort is the life force of social advance.

Reward provides the stimulus to effort. It is reward, or the hope of reward, that inspires. A man may, like the philosopher, labor to express an idea. He may toil to produce kitchen vegetables. He may aim at the creation of beauty. He may desire a seat in Congress. However ethereal or mundane the goal, effort is still put forth to achieve it. Deny the reward of effort, and the well-spring of effort is dried up.

The general principle of the relation of reward and effort applies with seven times greater force to the economic world. Men have wants. They produce economic goods, or they labor for income in order to satisfy their wants. The physical wants must be satisfied or the man dies. Therefore, whether he will or no, he is compelled to expend such effort as will provide for them.

Men labor to earn income which will supply their

<sup>1</sup> It will be urged that the civilization of the West has been built upon serfdom and slavery. Historically, that is true; but meanwhile the ideal has been freedom. It is true that serfdom and slavery were at one time a part of Western civilization; it is equally true that both have been broken up and stamped out of existence. The Western World has turned its face definitely away from both.

physical wants. Imagine their state of mind when they discover that they are not receiving the wealth that they create! Imagine the dissatisfaction and unrest when they further find that the title to a part of the wealth which they have created has passed to men and women who took no share in the wealth creation! If there is such a thing as ethical economics, one of its cornerstones is the proposition that a man should get what he earns—all that he earns. The denial to any man of his earnings is an affront to one of those primitive concepts of justice which lead to the overthrow of the institutions which produce the injustice.

What do men receive in return for their services? What do men who expend no effort receive in return for their property holdings? What share in the values produced by industry take the form of service income; what shares take the form of property income? The answer goes far toward a solution of some of the most pressing economic problems.

## *II. Service vs. Property Ownership*

Heretofore, political economy has been content to discuss income under the heading of rent, interest, profits, and wages. The situation in the United States cannot be analyzed as it was by the English economists, since there is no American landlord class, and therefore no capitalist class distinct from the landlord class. Agricultural land, for the most part, is owned by individual farmers, or by persons of moderate means. The natural resources and the industries of the country are owned and capitalized through the



corporate system of business organization. In England there is still a landlord who owns the coal lands, and a capitalist who develops them; in the United States the natural resources are, for the most part, owned and developed by the same industrial group.

A classification loses virility whenever it becomes a mere abstraction. That classification only possesses real vitality which has some specific bearing on the conditions that it aims to describe. An appeal to the present income facts in the United States will alone provide a classification of income which will be really applicable to the conditions now prevailing.

It is not true that there are in America two distinct property-owning classes—the capitalists and the landlords. Any argument based on such a premise is bound to fail because of the absence of supporting fact. It is true, however, that there are two kinds of income—income from service and income from property ownership. Between these two sources of income the distinction can be drawn with considerable nicety.

The student of industrial and economic facts will search in vain through the twentieth century reports of corporations for any mention of "rent" and "interest" as distinct items. There are two income terms which the business world recognizes—"interest" and "dividends." The first is paid to the owners of bonds; the second, to the owners of stocks. If a man leases a farm he pays "rent" on both land and improvements. If he takes a house or an office he does likewise. The practice of accounting draws this distinction between the various forms of income—there is a return to property owners, called interest or dividend; there is a return to workers called wages or salaries.

Income from property ownership and income from industrial effort are clearly differentiated. In the more highly organized industries, like the railroads, accounting keeps the two funds absolutely distinct.

The returns for different kinds of service will, like the returns for different kinds of property, grow less distinct as industrial organization advances. The lines between professions and trades, between various trades, and between occupations in the trades, grow less and less marked. Infinite specialization renders any adequate distinctions difficult or impossible. So too, the landlord and capitalist merge in the stockholder, the bondholder and the investor. Meanwhile, the distinction between income from services and income from property will grow clearer and more emphatic.

Theories aside, an appeal to the world of affairs shows that the current industrial facts in the United States makes the logical income distinction one between that income which is the product of effort, and that income which is the product of property ownership.

The individual whose effort creates values for which society pays receives service income. His reward is a reward for his personality, his time, his strength. Railroad president and road-mender devote themselves to activities which satisfy the wants of their fellows. Their service is direct. In return for their hours of time and their calories of energy, they receive a share of the product which they have helped to produce.

The individual who receives a return because of his property ownership, receives a property income. This

man has a title deed to a piece of unimproved land lying in the centre of a newly developing town. A store-keeper offers him a thousand dollars a year for the privilege of placing a store on the land. The owner of the land need make no exertion. He simply holds his title. Here a man has labored for twenty years, and saved ten thousand dollars, by denying himself the necessities of life. He invests the money in railroad bonds, and, someone insists, he thereby serves society. In one sense, he does serve. In another, and a larger sense, he expects the products of his past service (the twenty years of labor) to yield him an income. From the day when he makes his investment, he need never lift a finger to serve his fellows. Because he has the investment, he has income. The same would hold true, if the ten thousand dollars had been left him by his father or given to him by his uncle—it would still command five per cent. Modern economic society does not ask a property owner how he became possessed of his property. The fact of possession is sufficient to yield him an income.

The terms "service income" and "property income" are mutually exclusive. The direct return which a man secures for the expenditure of effort is "service income." The return which he secures for the ownership of property is "property income." In the first case, the expenditure of effort, and in the second case, the ownership of property, yield an income return.

While there is a fundamental difference between service and property income, it does not follow that the same individual may not receive both. A teamster

is paid twelve dollars a week. That sum represents his service income. At the same time, he has seven hundred dollars in a savings bank. The twenty-one dollars interest paid each year by the savings bank to the teamster would represent his property income. The difference is drawn, not in terms of people, or of classes of people, but in terms of the relation between the individual and the industrial processes. The individual who contributes energy and time to the creation of goods and services receives a service income. The person who owns a part of the property used in production receives property income. The distinction, from the standpoint of industry, is fundamental.

While there are no sharp class lines in the United States, it is true that the great majority of wage earners and salary earners are dependent for all practical purposes upon the income which they receive in return for their services. On the other hand, there is a group in the community which lives almost entirely upon the returns from its investments. With these two groups in mind, the distinction between service income and property income appears to be of immense significance.

### *III. The Basic Income Question*

The basic income question is one, not of theory, but of fact. Marginal acres, marginal dollars of capital, and marginal laborers may be figments of the economic imagination, or they may be symbols of a real economic distinction. In the city of Omaha or of Portland, in the factories of Brockton, in the sweat-

shops of Pittsburgh and New York, in the mines of West Virginia and Colorado, the marginal man is missing. In his place there are great industrial enterprises engaged in the production of economic goods of a certain value. For these goods, or these values, the forces of the community contend. In that production and in that contention lies the real problem of distribution.

The matter may be made still more concrete. An industry—steel making, for example—takes raw materials, and by the process of manufacture adds to them value equivalent to one hundred dollars. What part of that hundred dollars goes in wages and salaries to the workers in the industry? What part of it goes in interest and dividends to the owners of the stocks and bonds? The former receive service income; the latter, property income. What proportion of the values goes in either direction?

The income question, thus baldly stated, cannot be answered with absolute accuracy. Up to the present time, most industries have failed to issue public reports which permit of a full income analysis. In the very near future public bodies such as the Interstate Commerce Commission, the Public Utilities and Railroad Commissions, and other similarly organized tribunals, will secure and compile such data. For the time being, almost the only authentic facts are those which have been collected and presented by the Interstate Commerce Commission, and by a few of the State Public Utilities Commissions.

The compilation of income facts is a stupendous task, which will never be successfully completed until the government takes it in hand. Meanwhile, an

individual, using the facts available, may point to the sharp distinction which is being more and more clearly drawn between income from services and income from property.

Many enthusiasts have hoped that when the facts were compiled there would appear some off-hand answer regarding the proportion of industrial income which was paid for services, and the proportion that was paid for property ownership. "Half and half," cries the agitator. "Sixty per cent. for wages, and forty per cent. for dividends," insists his more conservative confrere. The most cursory study of the available facts reveals the groundlessness of this hope, and the fallacious nature of such assertions.

When all of the income facts are analyzed, classified, and compiled, some government expert will be able to announce that of the total values created in the manufacturing industries, a given percentage goes for services, and another given percentage for property ownership. At the present time, however, the knowledge is but fragmentary. The proportions vary from industry to industry, and from establishment to establishment. Even at the present time, however, for a given group of establishments, and for certain industries, facts are available which show accurately what amount of the values produced in that segment of the industrial process goes for services, and what amount goes for property ownership. A long step toward an authentication of this general position is taken by Dr. Streightoff. Although he makes his statement incidentally, placing it in a foot-note, he finds that reliable information is obtainable from official sources showing the apportionment of services and of property

income in several large industries. Dr. Streightoff's note is as follows:

"Dr. Spahr, in his 'Essay on the Present Distribution of Wealth in the United States,' (pp. 88-92, 120) has concluded that in Basel, France, Saxony, the United Kingdom, and the United States, forty per cent. of the national incomes goes to capital, and sixty per cent. to labor. Recent available figures for eight large American industries employing over three million laborers, give to capital a return in dividends and interest of \$1,276,419,050, and to labor in salaries and wages of \$2,031,402,210, a total income of \$3,307,821,260, of which the share of labor is sixty-one per cent. and that of capital thirty-nine per cent. That these figures are typical of the whole field of American industry is questionable."<sup>1</sup>

An examination of Streightoff's table shows several noteworthy facts. In the first place, all of the data relate to the decade 1900 to 1910. In the second place, six of the eight groups of industries are ordinarily described as "public utilities." In the third place, the ratio between service income (wages and salaries) and property income (interest and dividends) is far from being a constant factor. For the eight groups of industries the ratio between service income and property income is six to four. Electric light and power stations give an opposite ratio of nine to six, while the industrial combinations report a ratio of one to four. The really interesting thing about the table is the fact that in 1912 an investigator was able to find eight groups of industries having a combined

<sup>1</sup> "The Distribution of Incomes in the United States," F. H. Streightoff. New York, Longmans, Green & Co., 1912, p. 44.

capitalization of thirty billions of dollars, all of which reported service income as distinct from property income.

Many accounts are so kept at the present time, either because business reasons demand it, or because government officials insist upon it, that the amounts paid for property and for service income may be readily ascertained. Such accounts must provide the basis for a study of the present-day income facts. The present study <sup>1</sup> purports to carry forward, if only for a few steps, the lines of income investigation which have been started by Hobson, Cannan, Spahr, Streightoff, and the other economists who are interested in income facts.

#### *IV. The Answer for Transportation Agencies*

Among all of the highly organized modern businesses none are more highly organized than the transportation agencies, particularly the railroads. The pioneer work in railroading once completed, railroad managers were enabled to turn their attention to the problems of organization and administration. The result of their activities is a marvelously wrought

<sup>1</sup> Throughout this study, the figures used are for 1909, 1910, and 1911, years which were arbitrarily necessitated by the availability of the figures. The census returns of the Thirteenth Census are for 1909. Most of the railroad and public utilities commissions are at least two years behind the calendar in the issue of reports. If the various groups of figures were to be at all comparable, they must be selected with some reference to the census year. Furthermore, the years 1910 and 1911 seemed fairly representative of normal business conditions. All of these reasons led to the use of data for 1910 and 1911 whenever it was available. In a few special cases 1912 and 1913 data were used.



business system which has been investigated, rounded out, and standardized by public authorities. For no group of industries is the information regarding property and service income so complete as it is for the railroads.

The reader will remember that the railroad is a business involving a particularly heavy original outlay. The roadbed, terminals, rolling stock, the rights of way, and other initial charges on railroad construction are immense. Once made, these capital investments are unusually permanent. The process of making, however, involves a heavy expense. In 1911, railroad operations brought the railroads of the United States a revenue of \$2,789,761,669. From other sources, such as rent credits, income received on the stocks and bonds of companies under their control and similar miscellaneous sources, the income was \$77,815,345.<sup>1</sup> The total income of the railroads from all sources therefore was a little more than two and three-quarters billions of dollars. During the same year the total amount paid in wages and salaries was \$1,208,466,470, and the amount of dividends was \$460,195,376,<sup>2</sup> while the entire amount paid in the form of interest was \$436,534,419, making the total of \$896,729,795 paid out in the form of income for railroad property holdings.<sup>3</sup>

Thus of the entire receipts for all of the railroads in the United States in 1911, three-sevenths was paid in wages and salaries, and two-sevenths in interest

<sup>1</sup> Statistics of the Railways in the United States, 1911, Interstate Commerce Commission, Washington, Government Printing Office, 1913, p. 53.

<sup>2</sup> *Ibid.*, p. 29.

<sup>3</sup> *Ibid.*, p. 53.

and dividends. The approximate ratio between the amount of service income and the amount of property income on the railroads of the United States was therefore 3 to 2.

There is, of course, considerable variation from one part of the country to another, and from one class of railroads to another, in the ratio between service and property income. The Interstate Commerce Commission has divided the country into three geographical districts,—the Eastern District, the Southern District and the Western District. A similar division is made of the railroads into three classes based upon their financial importance. Class I includes those roads with gross operating revenues of one million dollars or more. Class II includes those roads which have gross operating revenues of one hundred thousand dollars, but of less than one million dollars. Class III includes those roads which have revenues of under one hundred thousand dollars. An analysis of the returns for the United States by districts and by classes shows that while the ratio between operating rail revenue and total compensation is comparatively stationary, at about 7 to 3, the ratio between the operating rail revenues and the total amount paid in interest and dividends varies considerably. On the larger roads (Class I) one-fourth of the operating rail revenues is paid out in the form of interest and dividends in the East and in the South, while more than a third is so used in the West. The total of Class I roads shows a ratio between operating rail revenue and total interest and dividends of 3 to 1.

A brief summary of these facts compiled from the reports of the Commission gives an excellent idea of

the general ratio on which the railroads disposed of the greater part of the two and three-quarters billions of gross earnings which they received in 1911.

TABLE I.—OPERATING RAIL REVENUES, TOTAL COMPENSATION AND TOTAL INTEREST AND DIVIDENDS, FOR CLASS I ROADS AND FOR ALL OPERATING ROADS, 1911

		<i>Operating Rail Revenue</i> <sup>1</sup>	<i>Total Compensation</i> <sup>2</sup>	<i>Interest and Dividends</i> <sup>3</sup>
Class I Roads	East. ....	\$1,180,093,370	\$ 543,860,234	\$257,962,523
	South. ...	405,419,448	166,891,480	89,839,941
	West. ....	1,107,005,585	457,104,180	413,226,058
	Total..	\$2,692,518,403	\$1,167,855,894	\$761,028,522
All Operating Roads	East. ....	\$1,212,471,633	\$ 558,101,577	\$326,063,633
	South. ...	421,305,872	172,856,304	102,977,019
	West. ....	1,155,984,164	477,508,589	467,689,143
	Total..	\$2,789,761,669	\$1,208,466,470	\$896,729,795

The figures for railroads show that for each \$100 paid in compensation \$74 is paid as interest and dividends. The ratio of service to property income with railroad industry is therefore, roughly, 4 to 3.

These facts derived from a general survey of the aggregate figures for the large roads of the United States may be checked and supplemented from various other sources. In addition to the reports published by the Interstate Commerce Commission, there are a number of States which publish reports on the railroads operating within the State boundaries, and

<sup>1</sup> Statistics of the Railways in the United States, 1911, Interstate Commerce Commission, Washington, Government Printing Office, 1913, p. 55.

<sup>2</sup> *Ibid*, p. 29.

<sup>3</sup> *Ibid*, p. 41.

upon certain railroads whose lines enter the State.<sup>1</sup> Two of the State Railroad Commissions publish returns for several of the larger railroad systems. The following table contains figures for a number of systems, compiled from the reports of the Minnesota and Iowa Commissions.<sup>2</sup>

TABLE II.—OPERATING REVENUES, TOTAL COMPENSATION AND TOTAL INTEREST AND DIVIDENDS FOR CERTAIN RAILROAD SYSTEMS, 1911 AND 1912

	<i>Operating Revenues</i>	<i>Total Yearly Compensation</i>	<i>Total In- terest and Dividends</i>	<i>Ratio be- tween Service and Property Income</i>
Chicago, Burling- ton and Quincy	\$88,272,000	\$35,548,000	\$17,545,000	2-1
Chicago and Northwestern...	74,918,000	32,754,000	18,558,000	11-6
Rock Island.....	65,082,000	27,398,000	12,570,000	5-2
Great Northern...	61,214,000	22,525,000	24,018,000	11-12
Northern Pacific..	63,424,000	24,198,000	27,020,000	6-7
Iowa Central.....	3,511,537	1,560,000	630,000	5-2
Santa Fe.....	89,164,217	34,741,000	27,936,000	5-4

A glance at the last column of the table in which a rough estimate is made of the ratio of service income to property income will show the variation which always appears when individual establishments are compared. The ratio, for all of the roads, between operating revenues and compensation is fairly uniform, ranging from 3 to 1 in the case of the Great

<sup>1</sup> "Annual Report of the Public Service Commission of New York, First District," 1911, Volume II.

<sup>2</sup> "Annual Report of the Minnesota Railroad Commission," 1913. Minneapolis, 1913, pp. 265-314. Also the "Annual Report of the Board of Railroad Commissioners of Iowa," 1911. Des Moines, 1913, pp. 339-413.

Northern, and Iowa Central, to  $2\frac{1}{2}$  to 1 in the case of the other roads. The ratio between revenues and the amounts paid in interest and dividends shows no such uniformity. For the Chicago, Burlington, and Quincy the ratio of service income to property income is 2 to 1; for the Northern Pacific it is 6 to 7. Between these two extremes fall the other roads. This table shows this very clearly,—that while a general statement may be made regarding the relation between operating revenue and compensation for some of the larger Western railroads, no such statement will hold for the ratio between compensation and amount paid in interest and dividends.

This fact is further emphasized by some additional figures showing the ratio between operating income and total interest and dividends (in none of these cases were the figures for total compensation available). The Lake Shore and Michigan Southern reports an operating income of \$48,452,126; dividends of \$8,999,298; and interest of \$6,379,832. This would make the ratio between operating income and property income 3 to 1.<sup>1</sup> The New York Central, with operating revenue of \$100,741,601, reports the payment of \$18,868,966 in property income, a ratio of 5 to 1;<sup>2</sup> the Pennsylvania, with operating revenue of \$157,234,107, reports the payment of \$26,096,471 in property income, a ratio of 6 to 1;<sup>3</sup> and the Delaware, Lackawanna, and Western, with an operating revenue

<sup>1</sup> "Annual Report of the Michigan Railroad Commission, 1911." Lansing, 1912, pp. 199-208.

<sup>2</sup> "Annual Report of the Public Service Commission of New York, Second District," 1911, Volume III.

<sup>3</sup> *Idem*.

of \$35,947,066, reports the payment of \$6,028,800 in dividends (6 to 1).<sup>1</sup>

The railroad facts are well authenticated and fairly complete. For all of the leading roads, three-sevenths of the operating rail revenues is paid for compensation, and two-sevenths is paid for interest and dividends. The railroads of the United States in 1911 had completed the lines of a well-defined picture of income values. Under the then existing arrangements, the owners of railroad property were receiving about two-thirds as much as the people who do the work of the railroads.

The information regarding the other transportation industries is less satisfactory. There were in the United States in 1912, 30,317 telephone systems reporting an annual income of more than \$5,000, with 1,228,935 miles of wire and 1,402,844 telephones.<sup>2</sup> The total income of these systems was \$255,081,234. Of this total, \$96,040,541 was paid out in the form of salaries and wages, \$20,163,960 in the form of interest, and \$34,120,809 in the form of dividends. The surplus was \$17,205,516.<sup>3</sup> In the telephone business the service income is almost twice as great as the property income.

The land telegraph systems of the United States report for 1912 <sup>3</sup> gross receipts of \$52,337,211. Salaries and wages are reported as \$23,797,980, interest

<sup>1</sup> "Annual Report of the Public Service Commission of New York, Second District," 1911, Volume III.

<sup>2</sup> Bureau of the Census, Bulletin No. 123, "Telephones and Telegraphs, 1912." Washington, Government Printing Office, 1914, p. 18.

<sup>3</sup> *Ibid*, p. 19.

<sup>3</sup> *Ibid*, p. 25.

as \$1,608,593, and dividends as \$3,139,861. The ratio of service to property income is here about 5 to 1.

The data for express companies collected by the Interstate Commerce Commission shows—<sup>1</sup>

Operating revenue.....	\$76,198,754
Other income.....	5,633,792
Total income.....	<u>\$81,832,546</u>

The total payments for interest were \$950,407; for dividends out of current income, \$5,928,104; out of surplus, \$26,775,727, making a total payment in property income of one-third of the total income. The dividend payments out of surplus were swelled by a \$24,000,000 dividend paid by the Wells-Fargo Company. The credit balance carried from income to balance sheet was \$59,215,601.

The Iowa Railroad Commission furnishes two other classes of instances in which both service and property incomes are available. There are terminal railway companies in Iowa which report the payment of \$329,049 in wages and salaries, and \$37,553 in interest and dividends.<sup>2</sup> The total operating receipts are comparatively small,—slightly more than \$200,000 from rail operations with additions from rents of various kinds. The ratio between service and property income here is very much higher than that in the case of railroad companies. The Iowa report also contains an analysis of accounts of five bridge companies with

<sup>1</sup> Statistics of Express Companies for 1910, Interstate Commerce Commission. Washington, Government Printing Office, 1912, p. 15.

<sup>2</sup> "Annual Report of the Railroad Commissioners of Iowa," *op. cit.*, pp. 483-498.

a total capital of \$12,625,800.<sup>1</sup> The income is derived from rail operations, joint facilities, interest, and miscellaneous sources. During 1911 the total compensation paid was \$41,443, the total amount of dividends \$331,464, and the total amount of interest \$87,500. Therefore the ratio of service to property income is 1 to 10. No conclusion can be drawn from these instances. They are inserted here merely because they indicate the extent of the variation which may occur between service and property income.

The transportation business differs from many other businesses. The gross receipts cover the return for service in its various forms, and there is no such deduction from them, as there is in manufacturing, for raw materials. At the same time, the total amount of capital invested per employé is comparatively high, because of the great initial charge involved in railroad construction. Approximately half of the gross receipts of transportation agencies are paid out in the form of service income (wages and salaries). An amount is paid in the form of interest and dividends varying with the industry and the individual establishment.

#### *V. The Answer for Municipal Utilities*

Another five years of investigation and of compilation by public utilities commissions will bring together data regarding the income from municipal utilities (street car service, gas, electric light, and water) as complete as those which now exist for the railroads. At present, the data are fragmentary in character. The Bureau of the Census has compiled,

<sup>1</sup> "Annual Report of the Railroad Commissioners of Iowa," *op. cit.*, pp. 504-516.



once in five years, a complete series of reports for the electric railways of the United States, showing the operating earnings, and dividends and interest paid, as well as wages and salaries. For 1912, the gross income of the street and electric railways of the United States was \$585,930,517.<sup>1</sup> The amount paid for wages and salaries was \$200,890,939, while the total amount of dividends was \$70,992,218, and the total amount of interest was \$113,259,470. From these figures it appears that one-third of the gross income on street and electric railways goes to the payment of service income, and almost an equal amount to the payment of property income. The ratio between service income and property income is therefore 10 to 9.

In passing, it may be noted that on the street railway lines the interest charges exceed the dividends—the ratio between the two is 4 to 3. The ratio for the steam railroads of the United States was reversed in 1911 (460 millions of dividends and 437 millions of interest). In both cases the primary capital outlay is heavy.

A few State reports cover the same ground as that included in the Federal report. The Maine Railroad Commission<sup>2</sup> reporting upon the operations of fifteen street railways in the State, makes it appear that the ratio of service and property income is approximately the same in Maine as for the country at large. One Minnesota street railway (the Minneapolis and St. Paul Company) with operating revenues of \$444,504, reports the payment of \$170,733 in total yearly compensation, and of \$58,445 in interest and divi-

<sup>1</sup> "Street and Electric Railways, 1912," Special Report of the Census. Washington, Government Printing Office, 1914, p. 66.

<sup>2</sup> "Annual Report for 1912," *op. cit.*, pp. 10-32.

dends. The proportion of service to property income is in this instance almost exactly 3 to 1.<sup>1</sup> A ratio apparently exists between operating revenues, and service and property income on street railways similar to that for steam railroads. As in the case of railroads, there are variations in the ratio between service and property income from one establishment to another.

The data for other public utilities are far less satisfactory than those available for street and electric railways. In New York, it appears that the payments of property income slightly exceed the payments for service income. The Wisconsin Railroad Commission reports on the operating revenues and the payments for interest and dividends of certain public utilities in 1911.<sup>2</sup> For gas utilities, the ratio is 4 to 1; for electric utilities it is 3 to 1; for water utilities it is 4 to 1. The financial reports of individual companies yield similar results.

The relation between the service income and property income paid by municipal utilities differs little from that in the railroad industry. There are a few instances in which the payments of property income exceed the payments of service income. In general, however, the conclusions which apply to the railroads are equally applicable to public utilities.

#### *VI. The Answer for Manufacturing Industries*

The manner in which the values created in manufacturing industries are disposed of is far less clear

<sup>1</sup> "Annual Report of the Minnesota Railroad Commission, 1911," *op. cit.*

<sup>2</sup> "Annual Report of the Railroad Commission of Wisconsin, 1910-11." Madison, 1912, Volume II, Part IV.

than it is in the case of transportation and of public utilities. The books are similarly kept; the facts could be made as readily accessible, yet to date, there has been little effort to collect and analyze them.

The only accurate up-to-date information on the relation between service and property income is that contained in a few scattered reports on individual industries. These figures are necessarily indicative rather than conclusive.

Three important companies engaged in the manufacture of iron and steel make reports which permit of analysis into service and property income. The Bethlehem Steel Corporation in its report for 1913<sup>1</sup> shows the payment of \$2,846,583 in interest and dividends, and \$13,993,417 in wages and salaries. At the same time, the net earnings were eight and three-quarters millions of dollars, of which \$1,528,785 was applied for depreciation, and \$2,214,517 appeared as surplus. The amount paid in service income is almost four times as great as the amount paid in property income, but the amount of interest and dividends, plus the amount set aside for additions to capital, plus the surplus, is equal to half the amount paid for services. *but even wage?*

The earnings of the United States Steel Corporation and of the Republic Iron and Steel Company were analyzed in great detail in the recent Federal Report on the Steel Industry.<sup>2</sup> For 1911, the total receipts of the United States Steel Corporation from all

<sup>1</sup> "Ninth Annual Report of the Bethlehem Steel Corporation for year ending December 31, 1913."

<sup>2</sup> "Report on Conditions of Employment in the Iron and Steel Industry," United States Bureau of Labor, 1912. Washington, Government Printing Office, 1913. Vol. 3, Chapter XI.

sources were \$618,911,430. Of this amount, 26 per cent. was paid out for wages and salaries, 16 per cent. was paid out as interest and dividends, and 1 per cent. was set aside as surplus. The ratio of service to property income is therefore 3 to 2. Unfortunately the interest charges includes depreciation, replacement, and sinking funds. In this connection it is interesting to note that in 1911, while \$161,419,000 was paid in wages and salaries, the undivided surplus of the steel corporation was \$156,275,000, an amount almost equal to the total paid in wages and salaries during that year.<sup>1</sup>

*Accumulated  
in one  
year?*

The Republic Iron and Steel Company for 1911, with total receipts of \$24,071,771, charged 34 per cent. to wages and salaries, 13 per cent. to dividends and interest (including depreciation and interest charges), and had a surplus of 3 per cent. of the total receipts.<sup>2</sup> The ratio of service to property income is here 3 to 1.

The material giving directly the amount paid by manufacturing industries in service and in property income is meager in the extreme. There are, however, two sources from which some information on the subject may be gleaned. The Census data on manufacture give for all industries and for specific industries the total value of products and the total payments for wages and salaries. These figures show the relation between gross value, or value added by manufacture, and service income. Several States publish like data. On the other hand, a body of information

<sup>1</sup> "Report on Conditions of Employment in the Iron and Steel Industry," *op. cit.*, p. 277.

<sup>2</sup> *Ibid*, p. 279.

exists in those corporation reports which gives gross income and total payments for interest and dividends. From these figures total property income may be ascertained. The two sets of figures certainly cannot be compared. Both, however, are suggestive.

The value of all products produced by manufacturing industries in 1909 was twenty and three-quarters billions of dollars.<sup>1</sup> The value added by manufacture was \$8,572,527,000. The total amount charged against "services" (a term under which the Census includes all salaries and wages) was \$4,376,000. Thus almost exactly half of the value added by manufacture was paid out in the form of salaries and wages. The reader will remember, by way of comparison, that slightly less than half of the operating rail revenues of railroads was paid out as service income.

The ratio between value added by manufacture and total payment for services is not at all uniform in the different manufacturing industries. Indeed, the variation is many times greater than that shown by the statistics of railroads. While the ratio is 2 to 1 in the manufacturing industries at large, it stands 33 to 1 in the manufacture of distilled liquors, and 20 to 19 in the case of general shop construction by railroad companies. A table of the thirty-five industries in which the value of the products for 1909 is reported to exceed seventy-five million dollars, shows that for the most part the relation between the value added by manufacture and the total amount paid for services remains fairly constant, varying between 5 to 2 and 5 to 3. In this entire group of industries there are six instances in which less than two-fifths of the value

<sup>1</sup> "Abstract of the Thirteenth Census of the United States," p. 437.

added by manufacture is paid out in the form of service income, and five instances in which more than three-fifths of the value added by manufacture is paid out in the form of service income.

There are a number of State bureaus of labor which publish information regarding the total receipts from manufacturing, the cost of materials and supplies, and the total amount of wages paid. Unfortunately, there are no instances in which the States report the amount of salaries as well as the amount of wages.

The State of Oklahoma furnishes information regarding its manufacturing industries for 1911.<sup>1</sup> During that year the total receipts from the sale of manufactured products were \$81,857,149. The figures in this report show that the cost of materials used in the manufacturing industries of Oklahoma is five-eighths of the total value of the products. This proportion is the same as that shown by the United States Census figures. Of the value added by manufacture, 45 per cent. was paid in wages. If salaries had been included in this statement (they equal about a tenth of the value added by manufacture), the ratio of value added by manufacture to service income would be virtually the same as that reported by the United States Census.

New Jersey and Massachusetts publish statistics showing the value added by manufacture and payments in the form of wages. The figures for Massachusetts vary somewhat from those of Oklahoma.<sup>2</sup>

<sup>1</sup> "Annual Report of the Department of Labor," Oklahoma, 1911-12. Oklahoma City, pp. 150-153.

<sup>2</sup> "Twenty-fifth Annual Report of the Statistics of Manufactures," 1910. Bureau of Statistics, Boston, 1912, pp. 2-12.

The Massachusetts industries are primarily textile. The wages paid in these textile industries are lower, and a smaller proportion of the value added by manufacture is paid to the wage earners. An analysis of the figures published by the New Jersey Bureau of Statistics <sup>1</sup> shows a situation which differs very little from that recorded in the United States Census and in the Oklahoma report. On the whole, it may be said that the State reports do not differ in any material way from the figures published by the latest Federal Census.

A generalization is permissible at this point. It seems to be true that about one-half of the value added to the raw materials by the American manufacturing industries is paid out as wages and salaries. Those industries having large capital investments report a less proportion, while those with a comparatively small capital investment report a far larger proportion. Although the generalization does not hold true for specific industries, it does seem to be borne out by the results obtained by State as well as Federal studies.

The figures showing the relation between gross values or total values created in the manufacturing industries, and the payments for services income, are far less usable from a statistical standpoint than the figures showing value added by manufacture. The immense difference in the net value of raw materials leads to wide differences in the ratio of gross values to service income. The total figures from the Census shows that of the gross value created in manufacture,

<sup>1</sup> Bureau of Statistics of New Jersey, 1911. Camden, 1912, pp. 10-26.

the amount paid to wages and salaries constitutes about one-fifth for all industries. This proportion seems to be a representative one.

However desirable it might be to reject these figures for gross values and adhere to the values added by manufacture, the manner in which most industrial accounts are kept do not permit of any such procedure. If service and property incomes in the manufacturing industries are to be compared, attention must center on gross returns, because that is the only figure which appears in corporation accounts. Even that is absent from most accounts, or else a complication of accounting prevents the student from determining the amount of interest or of dividends. There are a number of manufacturing industries, however, for which the manuals publish fairly satisfactory data.

One of the most frequently discussed companies is the Pullman Company. This Company, with a capital of \$120,000,000 (no funded debt) reports for 1912-13 total revenues from all sources,—

Sleeping car operations.....	\$40,103,216
Auxiliary operations.....	1,091,875
Manufacturing plant.....	<u>31,320,181</u>
	\$72,415,272

Net corporate income.....	\$14,714,704
Dividends, 1912-13.....	9,439,769

Apparently (for the accounts are not entirely clear) the ratio between total revenues and the amount paid in dividends is 8 to 1, while the ratio between total revenue and the amount of net corporate income is 5 to 1. In this connection it is worth remembering that although the amount paid in dividends by the



Pullman Company is only one-eighth of the gross revenues, the Pullman Company has increased its capital from \$18,000,000 to \$120,000,000 by declaring stock dividends.<sup>1</sup> Nowhere is there an adequate statement to show the proportion of gross earnings which the Pullman Company pays in service income.

The ratio between gross earnings, the amount paid in interest and dividends, and the amount set aside as surplus by certain companies which make fairly complete reports, appears in the following table:

TABLE III.—RATIO OF GROSS INCOME TO PROPERTY INCOME AND TO SURPLUS IN CERTAIN REPRESENTATIVE INDUSTRIES

<i>Company</i>	<i>Year</i>	<i>Ratio of Gross Income to—</i>	
		<i>Interest and Dividends</i>	<i>Amount set aside as Surplus</i>
American Locomotive Company. .	1910-11	20 to 1	25 to 1
American Woolen Company. . . . .	1909	20 to 1	25 to 1
Baldwin Locomotive Works. . . . .	1912	12 to 1	16 to 1
Dupont Manufacturing Company	1912	7 to 1	20 to 1
General Baking Company. . . . .	1912	16 to 1	50 to 1
General Electric Company. . . . .	1911	11 to 1	14 to 1
International Paper Company. . .	1910-11	16 to 1	30 to 1
National Biscuit Company. . . . .	1910	12 to 1	. 3 to 1
Pittsburgh Plate Glass Company.	1911-12	11 to 1	50 to 1

There are a few smaller companies for which the figures are available. These cases, most of them among the successful large manufacturing concerns, illustrate the extent of the variation and the general ratio existing between gross income and property income. Apparently from five to ten per cent. of the gross income of such companies goes for the payment

<sup>1</sup> "The Manual of Statistics." New York Manual of Statistics Company, 1913, p. 735.

of interest and dividends. It will be remembered that for all manufacturing industries the percentages paid in service income was about twenty per cent.

The student will note with keen disappointment the lack of adequate data on which to base any general statement of the ratio between service and property income in the manufacturing industries. That the figures are as readily obtainable for the larger manufacturing industries as they are for the railroads and other public utilities goes without saying. They cannot be worked out and satisfactorily presented until a thorough expert study is undertaken by some official body. Probably real enlightenment in this direction lies in the creation of a commission with powers like those of the Interstate Commerce Commission, to compel the keeping of uniform accounts.

For the time being this much may be said. About one-half of the total value added to the raw material by the processes of manufacture is paid out in the form of service income. The proportion paid to property is less, very much less, in fact, although no defensible statement may be made in terms of figures. Of the gross income from manufacturing industries, a fifth is paid out in the form of service income, and a considerably less proportion takes the form of property income.

### *VII. Mining, Smelting, and Refining*

Perhaps the Michigan Copper strike revealed a unique example of the relation between service and property income. At the same time, the strike resulted in the publication of some significant facts re-

garding the income situation in the copper mining industry, and showed that certain of the properties were yielding immense returns on the capital invested.

The full text of an illuminating report<sup>1</sup> throws into the foreground the operations of the Calumet and Hecla Company, and the companies which it controls. The actual cash paid into this company seems to have been \$12 per share on 100,000 shares, the par value of which is \$25. The Calumet and Hecla Company reports for 1912 \$4,364,360 paid in the form of interest and dividends, and \$3,193,073 paid in wages. Exactly what percentage of the total compensation this term "wages" includes, the report does not make clear. If the ordinary relation between wages and salaries exists, from 5 to 10 per cent.<sup>2</sup> should be added to this amount in order that the total amount paid in the form of service income may be ascertained. The amount of interest and dividends is considerably in excess of the total amount paid in wages and salaries.

An examination of appendices 2 and 3 in the same report shows that while the Calumet and Hecla Company is the largest and apparently by far the most successful of the companies reporting, there are other ventures almost equally prosperous. The ratio of service to property income in the case of the Calumet and Hecla Company is probably unique. At the same time, it is one instance, on a huge scale, of an industry which pays more dollars per year to the holders of the property than to the people who carry on the work.

The figures showing the relation between service and

<sup>1</sup> "Michigan Copper District Strike," United States Bureau of Labor, Bulletin 139. Washington, Government Printing Office, 1914.

<sup>2</sup> Abstract of the Thirteenth Census, Table 110, pp. 514ff.

property incomes in the mining industry are far from satisfactory. The figures published in the Thirteenth Census<sup>1</sup> show a total value of the production of mines and quarries of \$1,238,410,000. The expenses of operation and development were \$1,042,643,000. This total includes the expenditures for services, supplies, royalties, taxes, contract work, rents of offices, and the like. Apparently all of the costs of the business are included except the payments for interest and the fund for dividends and surplus. The Census does make clear the relation between the value of products and the costs of operation, on the one hand, and the payment for services on the other. The total expense for services was \$662,422,000, or about one-half of the value added to products and three-fifths of the total cost of operation. Among the principal mining industries the proportion of total value of products to service income is about 2 to 1. It is highest in bituminous coal mining (4 to 3), and lowest in the production of petroleum and natural gas (5 to 1). For the most part, the ratio holds fairly constant.

The Census report on Mines and Quarries for 1902<sup>2</sup> contained an analysis for all incorporated companies showing the total amount paid in wages and salaries, and the total amount paid in interest and dividends. The value of products for 1902 was \$626,132,000; the total of wages and salaries was \$338,107,000, and the total of interest and dividends was \$86,021,000.<sup>3</sup> The

<sup>1</sup> "Mines and Quarries," 1909, Bureau of the Census. Washington, Government Printing Office, 1913, pp. 334-335.

<sup>2</sup> "Special Report of the Census Bureau." Washington, Government Printing Office, 1905.

<sup>3</sup> *Ibid*, pp. 68 and 88.

ratio between total value produced and service income was therefore about 2 to 1, and between total value and property income 9 to 1.

Such fragmentary information in the mining industry as may be gathered from the manuals of industrial statistics shows that the variation between total earnings and property income is extreme. Few of the mining companies making reports have funded debts. They are, for the most part, capitalized by the issue of stock, on which the dividends vary widely.

### *VIII. Service and Property Incomes*

Anyone who sets out to find for service and property income a fixed rate which will hold true for all industries, or that will hold true throughout any one industry, is doomed to bitter disappointment. No such ratio exists, and in the very nature of things, it cannot exist. Variations in the conduct of individual businesses, and in the character of various classes of businesses, necessarily lead to the variations in the service-property income ratio.

Among the great industries, about one-half of the value added by manufacture, or of the equivalent of that term, is paid out as wages and salaries. A less proportion—in many cases, considerably less—is distributed to stock-and-bond-holders as interest and dividends. Generalizations can scarcely be made more definite regarding the ratio between service and property incomes.

A fixed formula between service and property income is not in any sense indispensable, however convenient it may be. The important fact lies in the

existence of a demonstrable relation between service and property incomes.

Business accounts of to-day give no clue to "rent, interest, wages and profits." In so far as modern accounting is concerned, the terms as they were used by nineteenth century economists are obsolete. In their place appears a new terminology including such words as "compensation," "dividends," "interest," and "surplus." Compensation is service income; dividends and interest are property income; surplus is undistributed income, or income—the distribution of which has not yet been determined. If the economist is to talk in terms that the man of the street can understand, he must talk in the language of the street. If he adopts this language, he will make a distinction between service and property income that is clear-cut and logical, on the one hand; and that, on the other hand, is being consciously formulated and lived up to by the world of affairs.

The data for distinguishing service from property income are as yet incomplete. Yet the logic of the distinction seems no less inevitable than the trend of fact in that direction. As the material aggregates, it will become more and more clear that the income issues of the next generation must concern themselves with incomes from services, on the one hand, and incomes from property on the other. The distinction is vital, and it takes added significance with each passing year.

## CHAPTER III

### THE OCCUPATIONS OF THOSE RENDERING SERVICES

#### *I. The Treatment of Service Income*

THERE is an essential difference between "service" income and "property" income which necessitates an absolutely different method of treatment for the two. Service income, paid to the individual in return for some effort, exertion, or expenditure of time and energy, has about it a personal element that will not be gainsaid. The wage earner receives a certain wage. He receives it as an individual, and because of his individual participation in some enterprise. The recipient of property income secures a share in the values created by production because he owns property. The means by which he secured the property matters not a whit. The personal element is not at issue. The best citizen in the community may own no property, or he may be possessed of a quarter of all the property in his native town. The title to property may lie with a genius, an imbecile, a cemetery, an orphan asylum. In property income, the personal element has no place. Property incomes are paid to the holder of property titles, irrespective of personal qualities. Under the circumstances, it is possible to treat service income on an individual basis. Property income must be treated abstractly. It is possible, for example, in the case of service income to

state that, in a given town, a certain percentage of the employees in the sugar refineries receive from \$12 to \$15 per week. The best that could be said for property income would be that the refineries paid a certain sum in dividends. This payment might be made to ten or to a thousand individuals, depending on the proportion of property titles held by these individuals.

Since the personal element plays so large a part in service income, it is comparatively easy to give a personal interpretation to the problem. In fact, service income is always interpreted personally. The wage earner is said to get too little or too much. He is said to be extravagant or thrifty. Such phrases, involving the use of income, have no place in the present discussion. The most that can be done here is to inquire into the service incomes paid to and received by various classes and groups of income earners.

## *II. Gainful Occupations in the United States*

The volume of the Thirteenth Census dealing with "Occupation Statistics" contains a general summary of occupational returns. The Census enumerators "were instructed to return an occupation for every person engaged in gainful labor" (page 15). The data therefore relate to those persons rendering a service for which they received payment.

There are eight general occupations recognized by the Thirteenth Census. The names of these occupations, the number of persons engaged in them in 1910, and the per cent. of persons in each of the occupations, appears in the following table:



TABLE IV.—NUMBER AND PERCENTAGE OF GAINFULLY OCCUPIED PERSONS IN THE UNITED STATES, ENGAGED IN EACH GENERAL GROUP OF GAINFUL OCCUPATIONS, 1910 <sup>1</sup>

	<i>Gainfully Occupied Persons</i>	<i>Per Cent. Distribution</i>
All occupations.....	38,167,336	100.0
Agriculture, forestry, and animal husbandry	12,659,203	33.2
Extraction of minerals.....	964,824	2.5
Manufacturing and mechanical industries. . .	10,658,881	27.9
Transportation.....	2,637,671	6.9
Trade.....	3,614,670	9.5
Public services (not elsewhere classified). . .	459,291	1.2
Professional service.....	1,663,569	4.4
Domestic and personal service.....	3,772,174	9.9
Clerical occupations.....	1,737,053	4.6

The largest single group of occupations—agriculture, forestry, and animal husbandry—report almost exactly one-third of those gainfully employed. Among the twelve and a half million men and women engaged in this group of occupations (10,851,702 were men and 1,807,501 were women), more than half are, judged from the Census tables, evidently employees. Of “farm laborers” alone there were 5,975,057, while those persons engaged in forestry and the other occupations grouped together under this heading, would add considerably to the total number of persons working for a wage or salary paid by another.

Agriculture, with the allied occupations, remains as the greatest single occupation group. However incomplete the income return may be from this group, it is unique both as regards size and economic importance.

<sup>1</sup> “Occupation Statistics,” Thirteenth Census, p. 40.

The entire business of extracting minerals involves the work of less than a million persons. Unlike the agricultural occupations just discussed, the extraction of minerals is usually carried on as a highly organized and specialized industry.

The second largest occupational group—manufacturing and mechanical industries—reports ten and a half million persons employed. The classification of agricultural workers and mine workers was a simple matter compared with the classification of those engaged in manufacture. Of the total number, 8,837,901 were male, and 1,820,980 were female.

The Census enumerators have made five groups among those engaged in manufacturing. There are, first of all, the apprentices; second, persons manufacturing outside of factories; third, laborers; fourth, semi-skilled operatives; and fifth, persons having trades or occupations which might be classed as skilled. Despite the very evident drawbacks, which are noted in the Census volume, to such a classification, the large facts which this analysis of industry shows stand out with surprising clearness. The five groups tabulated from Table 14 of the Volume on Occupations (page 53) are as follows:—

TABLE V.—GAINFULLY OCCUPIED PERSONS IN MANUFACTURING AND MECHANICAL PURSUITS, GROUPED ACCORDING TO THE CHARACTER OF OCCUPATIONS, 1910

Apprentices.....	118,964
Workers not in factories.....	518,912
Laborers.....	2,489,706
Semi-skilled operatives.....	2,441,535
Skilled persons.....	4,929,366

The total of these figures does not add to the full

total of the persons engaged in the manufacturing industries, because of the return of a round half million of persons whose occupations are "not otherwise specified."

The persons here classed as "skilled persons" vary considerably in the degree of skill. There are, for example, in this group three-quarters of a million of carpenters, one-half of a million machinists, a third of a million painters, glaziers, etc., and a quarter of a million stationary engineers. Despite the variation in the character of work, all of the occupations specified are of a skilled nature.

Apparently, from the analysis given above, more than half of those occupied in manufacturing and mechanical pursuits fall outside of the group that might be described as skilled; one-fourth of the total are laborers who are engaged in work manifestly unskilled; another one-fourth are semi-skilled operatives doing work of a more or less crude nature.

Those persons who are gainfully employed in manufacturing and mechanical industries, in transportation, in trade, in public service and in clerical occupations, like those occupied in the extraction of minerals, are at work, for the most part, in highly organized businesses where the salary or wage relation is all but universal.

Transportation involves the employment of more than two and a half million persons, 1,065,596 of whom are women. Again there is a significant group of semi-skilled and unskilled workers who more than offset the brakemen, conductors, locomotive engineers, mail carriers, and other skilled men whose employment is reported. If the draymen, teamsters, and

expressmen; and hostlers and stable hands; the laborers and the longshoremen and stevedores are added together, there appear to be 1,286,157 of them. The skilled occupations reported for the group number approximately one million.

The three million and a half persons engaged in trade (3,136,582 men and 468,088 women) are rather evenly distributed over a number of occupations, with the single exception of retail dealers, who constitute a third of the total number of persons engaged in trade. Among the principal classes of traders are bankers and brokers, clerks in stores, commercial travelers, delivery men, insurance men, laborers, real estate dealers and salesmen and saleswomen, taken together, constituting four-sevenths of all the persons occupied in trade.

The half million persons engaged in public service require no comment, as they fall outside of the scope of the present inquiry.

Professional services, with a million and a half occupied persons (929,684 men and 733,885 women) show up strangely beside some of the other occupation groups. To use the language of the street, this group of persons occupies the headlines on the front page to an extent that is out of all proportion to its relative numbers. If the school teachers are eliminated, there remain only a million professional people. The entire legal group contains but 114,704; the ministerial, 118,018 persons; the medical, 151,132. The teachers number almost six hundred thousand.

The proportion of the sexes is reversed in domestic and personal service. There are twice as many women as men in this classification. Among the three million

and a half persons engaged in domestic and personal service, three-sevenths are servants. The remainder are scattered over a large number of forms of personal work. There are barbers, doorkeepers, boarding-house keepers, janitors, laundry operatives, porters, restaurant keepers, and waiters.

The final occupational group—clerical occupations—contains agents, bookkeepers, clerks (except clerks in stores), messengers and office boys, stenographers and typewriters. If the clerks in stores were added to the group, its number would be increased to two million.

While this analysis of occupations in the United States may seem unduly extended, it is made for the purpose of bringing out certain facts fundamental to the analysis of service income. It is worthy of note, for example, that a third of those gainfully employed are in agricultural and kindred pursuits, a field for which income statistics are practically unobtainable. It is worthy of note, on the other hand, that among the remaining twenty-five million persons gainfully employed, perhaps fifteen million are making a living in highly organized business (this estimate makes due allowance for the home workers, clerks in stores, retail dealers, salesmen and saleswomen, and excludes all professional and domestic service). Within this group of persons, occupied in organized industry, perhaps half are doing work which the Census describes as skilled or semi-skilled. Excluding agricultural occupations, four-fifths of the gainfully occupied persons are working for someone else—are employed for a wage or a salary. The wage-salary relation has thus become all but universal.

### *III. Some Distinctions between the Recipients of Service Income*

At the outset two important distinctions may be made between the kinds of services for which service income is paid. There is, on the one hand, the service which is rendered by those who are engaged directly in the productive processes. On the other hand, there is the personally rendered service which gratifies human wants and relieves human needs. The first form of service results in the production of economic goods, which go to the supplying (directly or indirectly) of human wants. The second form of service, which is, for the most part, a direct supplying of human wants, includes those personal services which are so essential a part of civilization.

The character of direct personal service is such, that it is, for the most part, unorganized and inchoate. Individuals render it individually. The "professions" are occupied with the rendering of direct personal service from one human being to another. Because of the individualistic nature of this personal service, it is extremely difficult to secure any reliable income data regarding it.

The entire field of personal direct service is virtually closed to the student of income. He may enter it with inferences, or guesses, but once there, he finds himself without accurate data on which to proceed.

### *IV. One-Man Industry*

The classes of occupations cited by the Census as "Agricultural Pursuits," "Extraction of Minerals,"

"Manufacturing and Mechanical Industries," "Transportation," "Trade," and some of the "Clerical Occupations," take the raw materials from nature's storehouse, convert them into various forms, through processes of manufacture, transport them, oversee their transfer from one ownership to another, until they are safe in the hands of the consumers. These occupations, almost all of which are concerned in the production of wealth, lend themselves, in a number of cases, to a definite income analysis.

There are, for the purposes of the present discussion, two types of industry. First, there is the one-man concern in which the owner manages, directs, and works actively in the business. The principal occupations in this class are farming, and small shopkeeping. Manufacturing has passed almost wholly under the domination of an organized industrial system. The farmers constitute the largest remaining group of small-business men. They are engaged in the work of the farm. They hire one, two, or, at most, a few assistants. The processes of agricultural industry are simple and for the most part, still unspecialized.

The small shopkeeper, like the farmer, is not an extensive employer of labor. Generally, he does his own work, depending for his livelihood on a small personal clientele. He has no business organization, and manages his business in a direct hand-to-mouth fashion.

The extent to which manufacturing industries are being converted into large scale units is clearly shown by the Census figures. More than four-fifths of the manufacturing plants employ twenty (20) persons or less. There are, in these establishments, only fifteen

per cent. of the wage-earners; on the other hand, only one-twentieth of the establishments employ more than 100 wage-earners, yet there are, in this one-twentieth of the establishments, two-thirds of all of the wage-earners employed. The figures showing the amount of product lead to similar conclusions. The manufacturing business of the country is carried on chiefly in large establishments.

There is every indication that the small business, even in agriculture and shopkeeping, is being slowly superseded, as it has been superseded in manufacturing. The college-trained farmer is specializing, installing expensive machinery, and hiring farm laborers. The small shopkeeper is forced into competition with chain stores, and other forms of highly organized business. The individual druggist, the small-restaurant keeper, and the corner grocer will linger for a long time, but each year they will secure a smaller proportion of the business of the community, because each year, big business in these lines is securing a firmer hold.

There is no way in which the incomes of those engaged in one-man industry may be accurately determined. In general, it is true that the incomes of such men are not large. In the absence of business organization, the returns are necessarily limited to an amount which corresponds somewhat closely to that of the marginal wage or salary-earner working in a similar position and industry. This is less true of farmers, on the whole, than it is of men engaged in small retail business. In both instances, however, it is probably true that the vast majority are earning a living about equal to the living which they would



be able to secure as wage-earners in a corresponding line of work.

There remain, for the purpose of the present discussion, that body of men and women who are engaged in organized industries. They constitute perhaps a third of those who are gainfully employed. It is about this group of recipients of service income that the discussion centers, because it is about them that the most accurate information is available.

#### *V. The Distribution of Occupations in Organized Industry*

There are a number of sources from which information may be secured, showing the distribution of occupations in organized industry. The Census reports, the reports of the Interstate Commerce Commission and the volumes issued as a result of Federal and State special studies, show rather conclusively the existing situation.

Broadly speaking, there are three types of workers in modern industry. Type one includes managers, superintendents, executive and administrative officials who are entrusted with the power to direct industrial operations; type two includes clerks, bookkeepers, and other persons on the commercial staff of industry; and type three includes those who work for wages. Broadly speaking, also, type one is engaged in the direction of men; type two is engaged in the facilitation of transactions and the systematizing of industrial work; type three is engaged directly with the handling of economic goods or tangible wealth.

A distinction is frequently made between salaries

and wages. Managers, superintendents, foremen and clerks are salaried employees. Other employed persons paid by the day, week or piece, are classed as wage-earners. It is interesting to note the small proportion of modern industrial workers who receive salaries.

Industrial organization has proceeded to a point where the directors of industrial activity are comparatively few, and the wage-earners comparatively numerous. In all of the manufacturing industries of the United States, 7,678,578 persons are gainfully employed. The division of these persons into classes is illuminating.

TABLE VI.—THE INDUSTRIAL GROUPING OF PERSONS ENGAGED IN MANUFACTURES, 1909 <sup>1</sup>

<i>Class</i>	<i>Total</i>	<i>Male</i>	<i>Female</i>
All classes.....	7,678,578	6,162,263	1,516,315
Proprietors and officials.....	487,173	472,914	14,259
Proprietors and firm members...	273,265	263,673	9,592
Salaried officers of corporations..	80,735	78,937	1,798
Superintendents and managers..	133,173	130,304	2,869
Clerks.....	576,359	437,056	139,303
Wage-earners (average number)...	6,615,046	5,252,293	1,362,753

Proprietors, firm members, and salaried officers constitute a comparatively small group. The number of clerks is approximately equal to the number of proprietors, salaried officers, and superintendents combined, while the wage-earners constitute seven-eighths of the total number of persons engaged in manufacturing.

The Census Abstract follows this summary table with a table in which an analysis is made of the forty-three leading industries of the country. A study of

<sup>1</sup> Abstract of the Thirteenth Census, p. 452.

this table shows that in twelve industries, the wage-earners constitute over 90 per cent. of the total number engaged, while in thirty-seven of the forty-three industries they constitute over 80 per cent. of the total number engaged. Those industries such as the production of bread and bakery products, which are still run on a small scale, show a high proportion of officials and a comparatively low percentage of wage-earners. The highly organized industries, on the other hand, such as cotton goods and iron and steel work, show a very low proportion of officials and a high proportion of wage-earners. This contrast is brought out even more effectively by the following detailed summary of the situation in four highly organized industries:

TABLE VII.—THE DETAILED INDUSTRIAL GROUPING OF PERSONS ENGAGED IN FOUR LEADING MANUFACTURING INDUSTRIES, 1909 <sup>1</sup>

Proprietors and Officials								
Industry	Total Number	Total	Pro- pri- etors and Firm Mem- bers	Sala- ried Offi- cials of Corpo- rations	Super- intend- ents and Mana- gers	Clerks	Wage- earners (Avg. No.)	Wage- earners (Avg. No.) Per Cent.
Boots and shoes, including cut stock and find- ings. . . . .	215,923	5,752	1,838	1,027	2,887	11,874	198,297	91.8
Cotton goods, in- cluding cotton small wares. . .	387,771	4,461	377	1,726	2,358	4,430	378,880	97.7
Foundry and machine-shop products. . . .	615,485	31,605	9,851	9,348	12,406	52,869	531,011	86.3
Iron and steel, steel works and rolling mills. . .	260,762	4,286	47	779	3,460	16,400	240,076	92.1

For the most part, the proprietors and salaried officials (the real heads of industry) are a vanishingly

<sup>1</sup> Abstract of the Thirteenth Census, p. 453.

small proportion of the number occupied in the manufacturing industries. Although there is a considerable variation from industry to industry, the fact remains that the wage-earners, in most organized industries constitute over nine-tenths of the total number, while wage-earners and clerks together constitute in the neighborhood of ninety-five per cent. of the whole.

The most highly organized industry in the United States is undoubtedly the railroad industry. In this industry, the proportion of general officers to total employees is less than in any manufacturing industry of which there is a record.<sup>1</sup> The general officers are two in seven hundred. The general and other officers are six in seven hundred. The railroad business has been evolved to a point where less than one man in a hundred is an officer in any sense of the word. The remainder (more than ninety-nine in a hundred) are subordinates.

The figures for several other industries are at hand. They will not be stated in detail because they correspond closely to the facts already cited for the manufacturing industries. Among the 1,139,332 persons engaged in the mining industry, 49,374 were proprietors and officials; 24,675 were clerks and other salaried employees; 1,065,285 were wage-earners. There is thus one proprietor and official for every twenty wage-earners. This proprietor-and-official group analyzed shows 29,922 proprietors and firm members, 5,657 salaried officers of corporations, and 13,795 superintendents and managers.<sup>2</sup> Among the

<sup>1</sup> "Statistics of Railways in the United States," 1911, *op. cit.*, p. 27.

<sup>2</sup> "Mines and Quarries," 1909, "Thirteenth Census of the United States," Volume XI, p. 28.

282,461 persons attached to street and electric railways in the United States, 23,271 were salaried employees, and 259,190 were wage-earners. The term "salaried employee" as here used includes clerks, etc. The ratio of salaried employees to wage-earners is one to ten.<sup>1</sup>

The facts for organized industry are clear and unmistakable. The tendencies of present industrial growth point in the direction of more complex organization, and a decrease in the proportion of persons who are managing their own businesses, together with a corresponding increase in the proportion of persons who are working on a wage or salary basis. Already the great industries such as railroading, the public service corporations, and the more highly developed manufacturing enterprises have reached a point where less than a tenth of the persons gainfully occupied in such industries are above the grade of clerks and wage-earners. Over nine-tenths of those engaged in modern organized industry are underlings—clerks and wage-earners.

#### *VI. The Possibilities of a Service Income Study*

The possibilities for a study of service income are narrowed, materially, by the lack of available facts. Individualistic occupations, such as those of professional people, persons rendering domestic and personal service, are of so personal a nature that income facts are difficult to obtain for them. Similarly, one-man or small scale industries such as farming and

<sup>1</sup> "Street and Electric Railways," 1912. Bureau of the Census, Bulletin 124, p. 66.

shopkeeping offer no facts to the student of income. There remain the incomes of persons engaged in organized industry.

The income facts for organized industry do not compensate for the absence of facts in other directions. However, the facts for organized industry are more desirable than any other income facts because they are typical of the direction in which industry is moving. Sooner or later, the major portion of gainful occupations will be organized. The facts for present-day organized industry are therefore significant and prophetic.

The facts for organized industry are indicative as well as prophetic. Some crude relation undoubtedly exists between the incomes received for services in organized industry and the incomes of persons doing similar work in one-man industry. This statement of economic theory has little statistical foundation, though it has the backing of experience in individual cases. Wages for similar work do not show any great variation<sup>1</sup> from one organized industry to another. A similar relation doubtless holds between personal service and one-man business, on the one hand, and organized industry on the other.

The most shocking thing about the distribution of occupations in modern industry is the overwhelming proportion of clerks and wage-earners. The percentage of men higher up is minute.

The only valuable service-income facts relate to clerks and wage-earners. There are no adequate figures showing the salaries of officials and minor officers. Again the most wanted facts are at hand,

<sup>1</sup> "Wages in the United States," *op. cit.*, Chapter 8.

because the clerks and wage-earners make up the great body of persons engaged in rendering services in organized industry.

The distribution of occupations among income earners shows the clerks and wage-earners to be the numerically powerful group. The next concern must be with their wage rates.

## CHAPTER IV

### SERVICE INCOME IN ORGANIZED INDUSTRY <sup>1</sup>

#### *I. Salaries and Wages*

THE data at hand furnish an indication, though an incomplete one, of the way in which income is apportioned among the people who are engaged in organized industry. After all, it is in them that the most permanent interest must center. Outside of agriculture, they constitute the major part of the population.

"Values to the extent of \$100 are paid to 'labor' in the form of 'compensation' or of 'wages and salaries.' How is this \$100 actually divided up among those who participated in its production?" The answer to that question cannot as yet be made final; to the careful searcher after truth it is far from satisfactory; yet those who have eyes to see will find in it many suggestions of the situation which will stand revealed when all of the facts in the case are made available for study.

The first large fact encountered in the analysis of service income is the distinction between salaries and wages. Although this distinction is arbitrary, it is significant for two reasons. First, because the incomes of "officers" and "salaried employees" are often very much higher than the incomes of "wage-earners"; and second, because in a large number of important publications dealing with service income, the incomes

<sup>1</sup> Much of the material in this chapter appeared in the *Popular Science Monthly*.



of wage-earners alone are given, while in other cases the data frequently contain statements for salaries and wages. In the main, the emphasis will be laid upon wages, first, as a matter of necessity—there is no analysis of compensation which shows salaries with the same minuteness that wages are set forth. Second, as a matter of choice—the wage-earners, being an overwhelming majority of the whole, constitute the bulk of the human income problem in industry.

The contrast between the amount paid to salary-earners and to wage-earners is in some cases considerable, and in others it is far less marked. Crude average figures alone are available for this comparison, because there is nowhere any statement of classified earnings for "officers."

The Iowa Railroad Commission reports several instances in which the compensation paid to officers is not much greater than that paid to wage-earners. The general officers of the Iowa Terminal Companies <sup>1</sup> receive an average daily compensation for one company of \$7.67, and for another company \$4.38, while for the same companies the average daily compensation of all other employees ranges from \$1.95 to \$2.55. The Iowa Bridge Companies <sup>2</sup> report an average daily compensation for general officers of \$4.32, and for all other employees \$2.01. These companies are small, and the variation between the returns to the officers and wage-earners is probably typical of that existing in many small businesses.

The railroads of the country report a divergence between the compensation of general officers and of

<sup>1</sup> "Annual Report for 1911," *op. cit.*, p. 498.

<sup>2</sup> *Ibid*, p. 516.

other employees which is considerable. For all operating railroads in the United States, the average daily compensation of general officers was \$12.99.<sup>1</sup> For Class I roads (annual earnings over \$1,000,000) the average is, in the Eastern District \$19.52; in the Southern District, \$14.63; and in the Western, \$16.63. In Class II and Class III roads the average is much lower. "The other officers" (there were in 1911 5,628 "general officers" and 10,196 "other officers" on all operating roads) received an average daily compensation of \$6.27. For Class I roads the average, as before, was somewhat higher than for Class II and III roads. Although the compensation rates for "other officers" do not greatly exceed the rates for the best-paid wage-earners, the rates of pay among general officers is much higher than for the wage-earners. With the exception of enginemen, conductors, and machinists, no group of railroad employees receives an average daily compensation of more than \$3.00 a day. For conductors and enginemen it is \$4.16 and \$4.79 respectively, and for machinists, \$3.14. Most of the employees are paid an average daily compensation of about \$2.00.

Although the facts are most readily usable in the railroad industry, an examination of the figures, from street and electric railways, mines and quarries, telegraph and telephone companies, and manufacturing industries tends to confirm the general impression made by the railroad statistics. For small concerns, and for second-grade officers, the rate of return is not greatly in excess of the rate for the better-paid wage-

<sup>1</sup> "Statistics of the Railways of the United States," 1911, *op. cit.*, p. 28.

earners. The general, or first-class, officers who are responsible for large enterprises do receive, as a group, a rate of return which is ordinarily from five to ten times greater than the rate paid to wage-earners.

There is another point of great significance which must be borne in mind in this connection. The salaries of general officers are high in individual instances, nevertheless the aggregate of salaries paid is small as compared with the entire amount of service income. Thus on the railroads the total compensation of both general and other officers was about \$40,000,000 in 1911. This constituted only about 3 per cent. of the total compensation paid during the year to all classes of employees. If to the salaries of all officers are added the total salaries of office clerks,<sup>1</sup> the entire salary schedule for the railroads covers 8 per cent. of the total amount paid in compensation.<sup>2</sup> The same situation exists in street railways. All street and electric railway salaries amount to approximately \$13,000,000 which is 9 per cent. of the total amount paid for compensation.<sup>3</sup> The Census<sup>4</sup> reports the payment of \$4,366,000,000 for services in the manufacturing industries. Of this amount, \$939,000,000, or more than a fifth, was expended for salaries. Officers of corporations received a quarter of this salary expenditure; superintendents and managers another quarter, and clerks and other subordinate employees received a

<sup>1</sup> This computation is made because of general usage by virtue of which clerks are paid by the month. Their yearly earnings are usually less than those of the better-paid wage-earners.

<sup>2</sup> *Supra*, p. 29.

<sup>3</sup> "Street and Electric Railways," 1907, *op. cit.*, p. 195.

<sup>4</sup> "Thirteenth Census of the United States," Volume VIII. Washington, Government Printing Office, 1913, p. 129.

half. If individual industries are examined, however, it appears that in highly organized businesses like the production of iron and steel, of railroad cars and locomotives, of agricultural implements, and the like, the relation of salaries to total compensation is essentially the same as that for railroads. The figures for mines and quarries<sup>1</sup> show \$39,000,000 paid in all kinds of salaries, as compared with \$370,000,000 paid in wages. Again the figures appear as about 10 per cent. General officers received one-fifth of the forty millions, or about 2 per cent. of the whole; superintendents, managers, and foremen received three-fifths, and clerks one-fifth of the total salary expenditure. For those organized industries in which figures are available, it would seem that the general officers receive less than one-twentieth of the total amount paid in compensation, while all salaried persons (general officers, other officers, and clerks) receive about a tenth of the total payments in the form of compensation. This generalization holds true for large, highly organized industries. In the smaller, less specialized industries, the proportion which the salary account bears to the total payments for compensation is perhaps double that in the larger industries.

The figures furnish an indication of the manner in which service income is divided between those who receive salaries and those who receive wages. When a hundred dollars is paid in compensation by a modern large-scale industry, from 3 to 4 dollars go to general officers, from 6 to 10 dollars go to other salaried employees (including clerks), and the great bulk, from

<sup>1</sup> "Mines and Quarries," 1902, Special Report of the United States. Washington, Government Printing Office, 1905, p. 91.

85 to 90 dollars, is paid in the form of wages to wage-earners. This formula will not hold good for individual industries, but it does express with a considerable degree of fairness the situation now existing throughout organized industry. Furthermore, the fact should not be lost sight of that in more highly organized industries, that is, in the industries which have evolved to the point which virtually all industries may be expected to reach in the process of their development, at least ninety out of every hundred dollars paid for compensation goes in the form of wages.

The point regarding the distribution of compensation among salaried employees and wage-earners is not stressed. For the purpose of this study no importance attaches to the distinction between a wage and a salary, since both payments are made for "services." Nevertheless, since most of the available figures relating to service income are wage figures, the critical reader will bear in mind the fact that the necessity which forced the use of such material bears every earmark of reasonableness, since the bulk of service payments are made in the form of wages.

## *II. The Incomes of Managers, Foremen, and Other Under Officers*

The data regarding the apportionment of incomes among officers of all grades are meager in the extreme. The mass figures cited in the last section give some idea of the general relation existing between salaries and wages in bulk. They are of no value in an analysis of income apportionment among individual salary- and wage-earners.

Figures showing the apportionment of income among general officers are apparently non-existent in any usable form. Even for under officials the figures are so scanty as to be worthy of only the most cursory analysis. The reason for this paucity of data is apparent. On the one hand, several of the most reliable sources (the reports of classified wages in the manufacturing industries of Massachusetts and New Jersey, for example) include "wage-earners" only in their classification. On the other hand, much of the salary information relating to under officials is, for all practical purposes, unclassified. The latest report of the California Bureau of Labor Statistics <sup>1</sup> is an excellent case in point. The income classification in that report includes, in its last category, incomes of \$25 per week and over (\$1,300 per year). For each city and under each industry "superintendents" or "managers" are listed, but in nine-tenths of the instances they fall in this last class. That they receive more than \$1,300 per year goes almost without saying. Exactly how much more the report does not state.

The figures showing the service incomes of inferior officers on the railroads appear in the form of averages only. The section foremen, of whom there were 44,466 in 1900 <sup>2</sup> received an average daily compensation of from \$1.92 to \$2.17, varying with the part of the country in which they were at work. The average daily compensation of general officers (\$12.99) and of other officers (\$6.27) has already been commented on. Apparently the railroad foreman receives a wage approximately the same as that paid to semi-skilled

<sup>1</sup> "Biennial Report for 1911-12." Sacramento, 1912.

<sup>2</sup> "Statistics of Railways," 1911, *op. cit.*, pp. 26 and 28.

wage-earners. The compensation paid to officers is considerably greater.

One report<sup>1</sup> contains data of real importance in this connection. The most available figures in this report relate to the Bell Telephone System, from the 1908 pay rolls of which they were taken. Among the Bell employees there were 614 foremen, one-fifth of whom received less than \$80 per month (\$960 per year), and eleven-twelfths of whom received less than \$125 per month (\$1,500 per year). Of the total number, only 51 received more than \$125 (the last class appearing in the report). The rates of pay for assistant foremen (39 in all) were much lower. Half fell below \$80, and all but one below \$125 per month. The pay of general foremen was higher. Of the 21 listed, half (10) received \$125 or more per month. The managers and assistant managers were paid at approximately the same rate. Two-fifths received less than \$80, and four-fifths less than \$125. The pay of superintendents is much higher. There were only three under \$80, and nine under \$125. Three-fourths (32 out of 41) received \$125 or over.

The New York Public Service Commission reports upon the income rates of 635 foremen and assistant foremen employed by gas and electric utilities in the First District of New York. Only 2 per cent. received less than \$750; 22 per cent. received less than \$1,000; and 58 per cent. received less than \$1,250.<sup>2</sup>

<sup>1</sup> "Investigation of Telephone Companies," United States Bureau of Labor, Senate Document, 380, 61st Congress, 2d Session. Washington, Government Printing Office, 1910, pp. 273-289.

<sup>2</sup> "Report of the Public Service Commission, First District of New York," 1911, Volume III, p. 275.

These figures are given rather because they emphasize the paucity of the data than because they serve any useful statistical purpose. So far as the figures go, they suggest that foremen, assistant superintendents, and assistant managers are paid salaries about equal to those of the best-paid tenth among the wage-earners (\$1,000 to \$1,500 per year). Superintendents, general superintendents, and general managers usually receive more than \$1,500. It is to be hoped that before another income study is made there will be some authoritative statement, at least for transportation agencies, showing the classified incomes of the men higher up.

### *III. The Incomes of Clerks*

There seems to be no very good reason why clerks should be classed among "salaried employees" rather than among "wage-earners," except that they are paid by the month. Nevertheless, they are so classed in virtually all of the reports, including the Census reports. For that reason they are treated separately in this study.

The railroad industry may be passed by with a word of comment, since its wage figures take the undesirable form of averages. The general office clerks <sup>1</sup> (76,513 in 1911) receive average daily compensations of \$2.49. The uniformity of their compensation throughout the country is astonishing in view of the usual variation in wages between the East and the West.<sup>2</sup> In the Eastern District they received \$2.56;

<sup>1</sup> "Statistics of Railways," 1911, *op. cit.*, pp. 26 and 28.

<sup>2</sup> "Wages in the United States," *op. cit.*, Chapter 8.



Southern, \$2.39; and Western, \$2.44. The other two groups of railway employees whose services might be classed as clerical are station agents (38,277 in 1911), and telegraph operators and dispatchers (41,196 in 1911). Their daily compensation is very uniform with that of the clerks. The average for the United States was,—station agents, \$2.17; and operators and dispatchers, \$2.44. As in the case of the clerks, the rate of compensation varies only slightly from one part of the country to another. Apparently the salary rates of most men doing clerical work in the railroad industry lie somewhere between \$650 and \$900 per year.

The statistics furnished from the telephone industry are worthy of some attention.<sup>1</sup> The total number of male clerks employed by the Bell System was 2,650. Of this number, one-tenth received less than \$40 per month, one-third received less than \$60, seven-tenths received less than \$80, and 52, or about 5 per cent. were paid more than \$125. For the 257 male bookkeepers the facts show a slightly lower range. Only 3 received over \$125, while four-fifths received less than \$80. Apparently in the telephone industry, as represented by the Bell interests, the bulk of the male clerical force is paid from \$600 to \$1,000 per year.

The female employees of the Bell System who were engaged in work of clerical grade are compensated at a rate much lower than that of males. A little more than half (1,015) of the 1,862 female clerks were paid less than \$40 per month, while nineteen-twentieths were paid less than \$50. The female "operators," who comprise the great bulk of telephone employees, report similar wages. The telephone com-

<sup>1</sup> "Investigation of Telephone Companies," *op. cit.*, pp. 273-289.

pany, employing 16,229 operators, paid seven-eighths of them less than \$40 per month, and all but 9 of them less than \$60 per month. The 377 female stenographers received somewhat higher wages. Only a seventh fell under \$40, two-thirds under \$60, while 19 earned over \$80. Most of the female clerical force employed by the Bell System received less than \$500 per year. A few were paid more than \$700.

The Public Service Commission of the First District of New York<sup>1</sup> gives some excellent figures for the public utilities. The street railways employ<sup>2</sup> 423 male general office clerks, for whom the wage rates are under \$500 per year in 8 per cent. of the cases, under \$750 in a quarter of the cases, and under \$1,000 in three-

<sup>1</sup> "Annual Report of the Public Service Commission of New York, First District," 1911, Volume II.

<sup>2</sup> For convenience of comparison, the figures given in the remainder of this chapter are stated, for the most part, in the following classification:

Per Cent. of Persons Receiving Wage Rates  
Per Year of Less Than

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\$250	\$500	\$750	\$1,000
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The percentage basis is substituted for the numerical basis because it results in greater clearness. The classification per year rather than month, week, or day, is adopted, because the figures appearing in the reports as rates per hour, day, week, and year, can be reduced to a rate per year more readily than to any other rate. Observe that these figures do not represent earnings per day. No allowance is made for unemployment in any of its forms. The rate per week or per month is multiplied by 52, or by 12 in order to give a year rate. The reduction of all of the figures to a common basis militates somewhat against their accuracy (as when a per hour rate is converted into a yearly rate), but adds greatly to their clearness, and comparability.

quarters of the cases.<sup>1</sup> The wage rates for the gas and electric utilities are very similar. Among 1,515 male clerks and salesmen, half received less than \$750, and nine-tenths under \$1,250. The ratio is similar for other clerical employees. For cashiers and bookkeepers the rate is higher.<sup>2</sup>

The pay of females doing clerical work in all of the New York public utilities is very much lower than that of males. The street railway general office clerks receive less than \$750 in four-fifths of the cases. Among the 252 clerks and salesmen employed by the gas and electric companies, 210 received less than \$750, and 240 less than \$1,000 a year. The rate for stenographers and typists is somewhat higher, one in ten of them receiving over \$1,000 a year.

Add to these meager data a few scattering instances in which the wages of clerical help are reported,<sup>3</sup> and all of the available evidence on the subject is presented. Summarized, they show that those clerical occupations for which data are available pay wages at a rate that does not differ materially from the ordinary wage rates of semi-skilled and skilled labor. Three-quarters of the male clerks receive less than \$1,000 per year, while less than 10 per cent. are paid more than \$1,250. For females the rates are much lower. The proportion of women who receive less than \$750 for clerical work is approximately the same as the proportion of men who receive less than \$1,250. The

<sup>1</sup> "Annual Report of the Public Service Commission of New York, First District," 1911, Volume II, p. 334.

<sup>2</sup> *Ibid*, pp. 272-274.

<sup>3</sup> "General Report on Manufactures," Thirteenth Census, Volume VIII, p. 239.

woman in a clerical position who receives more than \$1,000 is the exception, just as the man who receives less than \$500 is the exception. At the same time, a large percentage of the women receive less than this figure, while a considerable proportion of the men receive more than \$1,000. In only a small proportion of the instances does the wage rate among male clerks rise above \$1,250; in an even smaller number of instances do the wage rates of female clerks rise above \$750.

#### *IV. The Incomes of Wage-earners in Transportation and Commerce*

One of the most unsatisfactory situations revealed by an analysis of wage statistics is the paucity of the wage figures relating to transportation and commerce. It is in these fields that inquisitorial bodies have the greatest authority; yet it is in these fields, strangely enough, that the wage statistics are least usable. With the exception of the Census Volumes for 1912 on Express, and Telephone and Telegraph, and of a special report by the Bureau of Labor on the Telephone Industry, there is little or nothing of note.

The wages in the railroad industry, employing as it does more than a million and a half persons, are stated only as averages. The excuse for this statement of railroad wages in terms of averages—it requires some excuse, for, though the averages are given by districts and for ten wage-earning occupations and two groups of miscellaneous wage-earners, these again classified by districts and by the class of railroads, they are still averages, and therefore suffer under all

of the disqualifications that averages are heir to— seems to be that the length of time worked and the conditions of the work done by different employees vary so greatly that no classified statement could do justice to the situation. Pursuant of such philosophy the Interstate Commerce Commission has done, under the circumstances, the most misleading thing that it could possibly have done,—that is, it has published averages; and the State Railroad Commissions, following the footsteps which, unknown to them, led so directly into this statistical quagmire, also have published nothing but averages.

Granted that, in the case of railroad employees, the classified or group system of stating wages is inaccurate, how much more inaccurate does the average become? Instead of accepting errors at their face value, the average thus obtained compounds and augments error. Nor is this a case in which errors tend to neutralize each other. What avails an average of the wages of switch tenders in Maine and in Ohio? What avails an average wage for "all other employees and laborers," including for the United States nearly a third of a million men? The method carries its own refutation. Except as a basis of comparison from year to year, the figures are meaningless and absurd.

The difficulties lying in the path of obtaining classified wages for railroad employees do not seem to be so great as the protesters claim them to be. Why could not the Interstate Commerce Commission secure from each railroad a statement for the first week in June and December showing the number of employees of each class who had earned during that week less than \$5, \$5 but less than \$6, \$6 but less than \$7, \$7 but

less than \$8, and so on through the category? If the system of payment by months is so prevalent as to make the weekly statement impossible, a statement for an entire month would be even more satisfactory than a statement for a week only. The time would be longer and the results more representative.

At this point it must suffice to say that the average figures for wages on American railroads seem, for the most part, typical of the average wages reported in the manufacturing and other like industries. With the exception of enginemen, conductors, and machinists (who constitute 9 per cent. of the total number of employees, and whose wages average in the first two cases over \$4, and in the last over \$3), no group of employees reports an average wage of more than \$3. For three groups the average is less than \$2, for three groups it is between \$2 and \$2.49, and for three other groups it falls between \$2.50 and \$2.99. An analysis of average wages in those manufacturing industries which are similar in character to the work done on the railroad, shows that the averages are approximately similar.<sup>1</sup> With the exception of the three high-paid occupations mentioned above, railroad wages are, to all appearances, on a level with other wages in the same community. The wage conclusions for manufacturing probably apply to railroading.

The telephone and telegraph industry offers some excellent wage data. The Oklahoma Department of Labor publishes some figures on wages in the telephone industry. Of 668 male wage-earners, 27 per cent. received less than \$500; 78 per cent. less than

<sup>1</sup> "Wages in the United States," *op. cit.*, Chapter 7 and Chapter 9, Section 11.

\$750; and 95 per cent. less than \$1,000. The wage rates for females are much lower. There were 1,143 employed. The wage rates of 17 per cent. were under \$250, 96 per cent. under \$500, and 99 per cent. under \$750.<sup>1</sup>

The wage figures published by the Federal Bureau of Labor are taken from the pay rolls of the company, and represent as accurately as wage figures may, the situation on the company's books in 1908. In general, the wage scale in the telephone industry is much higher than the scale in most other industries.<sup>2</sup> The wages in nine typical occupations (cable splicers, chauffeurs, drivers and stablemen, installers, inspectors, laborers, repairmen, switchboard men, testers, and trouble men) show a considerable uniformity.<sup>3</sup> Only 10 men (they were all in one class, "inspectors") were receiving wages of more than \$125 per month (\$1,500 per year); two-fifths received less than \$750; four-fifths received less than \$2,000. If the laborers are eliminated, the range for the other occupations is greatly advanced. The bulk of installers, inspectors, repairmen, switchboard men, testers, and trouble men receive wage rates of from \$750 to \$1,000.

The figures for transportation permit of no further generalization than this,—so far as the data at hand may be relied upon, those occupations which have counterparts in manufacturing industries apparently pay similar rates of wages. At the same time, there are in this field a number of highly skilled occupations

<sup>1</sup> "Annual Report of the Department of Labor of Oklahoma," 1911-12, p. 232.

<sup>2</sup> "Wages in the United States," *op. cit.*, pp. 96-108.

<sup>3</sup> "Investigation of Telephone Companies," *op. cit.*, pp. 273-289.

which pay wages far above the usual run of wage rates. Even in these high-paid occupations, however, only a small proportion of male employees receive over \$1,000; about an equal proportion of female employees receive over \$750. Here and there a male employee is paid over \$1,500 per year, and a female employee over \$1,000 per year. These cases are so rare as to be unique.

#### *V. The Incomes of Wage-Earners in the Mercantile Industry*

The wage figures for the mercantile industry are even less conclusive than those for transportation and commerce. Their inconclusiveness has far more excuse for existence, however. Until recently the mercantile industry has been conducted on a small scale. The individual proprietor is still the dominating force in many fields. In no sense have the mercantile trades been organized as the railroads and the steel industry are organized. At the same time, organization is becoming the rule of the road, and merchandising is rapidly shaping itself into a highly developed business. Meanwhile, the meager data on wages in the mercantile houses are indicative, though not in any sense conclusive.

The last report from California gives in elaborate detail the facts regarding the wholesale and retail mercantile establishments.<sup>1</sup> The contrast between the wages of males and of females is sharp indeed. While only a tenth of the males receive less than \$500 per year, and only a third less than \$750, a tenth of the

<sup>1</sup> "Biennial Report for 1911-12," *op. cit.* Figures compiled from the tables.



females in retail establishments receive less than \$250; from a fifth to two-fifths receive less than \$500; and from three-fifths to four-fifths fall under \$750.

The wage rates for both sexes are higher in wholesale than they are in retail establishments. This is more true in the case of males than of females, although it is striking in both instances. It is also interesting to observe that the wage rates in San Francisco do not differ materially from those of Los Angeles.<sup>1</sup>

The Massachusetts Commission on Minimum Wage Boards reports the wages of 3,761 women and the annual earnings of 1,533 who were employed throughout the year. Many of the department store employees not employed throughout the year, leave for new positions, or are laid off in the dull season. All but 33 of the 1,533 women employed throughout the year earned less than \$500 per year. The hour rates of all of the 3,761 women show practically the same ratio.

The other sources of information yield similar results. A well-made study of saleswomen and other mercantile employees, not including buyers or clerical assistants, was made in Baltimore by Elizabeth B. Butler. The total number of women covered by the investigation was 4,048. Of these women, 2,184 or 54 per cent., received a rate of pay of less than \$250 per year, while 95 per cent. were paid less than \$500.<sup>2</sup> These rates are apparently similar to the rates paid

<sup>1</sup> The reader should bear in mind the fact that wages in California are perhaps a fifth or a fourth higher than wages for corresponding occupations in the East.

<sup>2</sup> "Saleswomen in Mercantile Stores," E. B. Butler, Baltimore, 1909. Charities Publication Committee, New York, 1912, p. 113.

in other Eastern cities.<sup>1</sup> Comparative studies indicate that the department store employees are paid at a higher rate than factory employees. Unfortunately the variations of age between the two occupations have not generally been taken into account. An Illinois investigation covering 2,556 department store employees showed that a twentieth received less than a \$250 wage rate, and half less than a \$500 year rate. On the other hand, a fifth of the wage rates were over \$750.<sup>2</sup>

It seems evident that for most saleswomen in Eastern mercantile stores, wage rates of more than \$500 per year (\$10 per week) are unusual. The great bulk of them are paid at the rate of from \$250 to \$500 per year.

#### *VI. The Incomes of Wage-Earners in Certain Manufacturing Industries*

Whatever their failure to provide adequate statistics covering wages in other gainful occupations, State

<sup>1</sup> See the following: "Hours, Earnings, and Employment of Wage-earning Women in the District of Columbia," *op. cit.*, pp. 22 and 23; "Report of the Iowa Bureau of Labor Statistics," 1912-13. Des Moines, 1914, pp. 122ff.; "Hours, Earnings, and Conditions of Labor in Indiana Mercantile Establishments," United States Department of Labor, Bulletin 160. Washington, 1914, pp. 31ff.; "Report of the Special Commission on the Conditions of Wage-earning Women in Connecticut," Special Public Document. Hartford, 1913, pp. 234ff.; "Wages and Hours of Labor in Mercantile Establishments in Ohio," Report No. 1, Department of Investigation, Industrial Commission of Ohio. Columbus, 1914, pp. 8 and 9; "Report of the Wage-earning Women in Kansas City," Board of Public Welfare, Bureau of Labor Statistics, pp. 72-76.

<sup>2</sup> "Biennial Report of the Bureau of Labor Statistics," Illinois, 1908. Springfield, 1910, pp. 413-592.

and Federal authorities have vied with one another in their efforts to prepare wage statistics for the manufacturing industries. Convenience leads to a grouping of the figures for manufacturing industries into three classes. Those for special industries, such as steel, textiles, etc.; and those for certain States which publish the best wage statistics; and those published by the Census Bureau.

The past three years have added materially to the wage statistics for special industries. The public demand for facts which arose out of labor disturbances, and the activity of certain public commissions vested with inquisitorial power, has led to the collection of considerable wage data of the greatest value. These data are peculiarly important because in many cases the investigation has been made from the pay rolls of the company or industry in question. In certain cases these pay roll data have been extensively compared with pay envelopes. The purposes of this section will be served by a review of only the most important of the recent wage investigations.

The most complete, and in all ways the most satisfactory, of the recent studies is that of the iron and steel industry, appearing in four volumes.<sup>1</sup> Each occupation in the steel industry was carefully studied. The investigation included plants in every part of

<sup>1</sup> "Report on Conditions of Employment in the Iron and Steel Industry in the United States," in four volumes, 62d Congress, 1st Session, Senate Document, 110. Washington, Government Printing Office, 1911-13, Vol. I. See also "Wages and Hours of Labor in the Iron and Steel Industry," 1907-12, United States Department of Labor, Bulletin, 151. Washington, 1914; "Wages and Hours of Labor in the Building and Repairing of Steel Railroad Cars," United States Department of Labor, Bulletin 137. Washington, 1914.

the country, and was minute and painstaking in the last degree. In so far as the wage figures are important at this point, they may be briefly summarized as follows: The investigation covered 172,706 employees; their wage rates per year (computed from the per hour rates given for May, 1910) were under \$500, 8 per cent.; under \$750, 60 per cent.; under \$1,000, 85 per cent.; and under \$1,500, 97 per cent.<sup>1</sup> These rates are somewhat higher than the rates previously derived for Bethlehem,<sup>2</sup> where the wage rates for that one plant were (January, 1910) in a third of the instances less than \$500 per year, in two-thirds of the instances less than \$625, and in only 8 per cent. of the instances \$1,000 and over. In explaining this difference allowance must be made for the fact that the Bethlehem works are in a small city, while many of the plants are located in great centers of population.

Although the wages in the iron and steel industry are higher than the wages paid in many American industries, they seem fairly representative of the situation in those branches of manufacturing which afford employment to men only. In the industry where women as well as men are employed, the wage scale is usually lower. The wage formula for the steel industry may be taken as a representative of the man-employing industries.

Labor troubles and tariff controversies have combined to attract public attention to the wage rates

<sup>1</sup> "Summary of Wages and Hours of Labor in the Iron and Steel Industry," United States Department of Labor, Senate Document, 301, 62d Congress, 2d Session. Washington, Government Printing Office, 1912.

<sup>2</sup> "Wages in the United States," *op. cit.*, pp. 108-112.

paid in the textile industries, consequently, the data for these industries are now fairly well authenticated. The Tariff Board made an extensive investigation of wage rates in the cotton industry.<sup>1</sup> The information, secured from 76 establishments, covered 18.67 per cent. of all cotton spinning and weaving employees enumerated by the Census (p. 633). An arbitrary division between Northern and Southern mills draws a line of marked distinction as to wages. Among the males sixteen years of age and over, in the North 5 per cent., and in the South 22 per cent., received a wage rate of less than \$250 per year. Half of the Northern men and over four-fifths of the Southern men were paid at a rate of less than \$500 per year. The highest wage rate in the schedule was twenty-eight cents per hour (about \$750 per year). In the North 6 per cent., and in the South 3 per cent., earned more than this amount. The figures for women range much lower than the figures for men. The highest class in the women's schedule is eighteen cents per hour (about \$500 per year). In the North, one-fifth, and in the South, two per cent., receive more than this amount.

These wage rates for the cotton industry are similar to those for the woolen and worsted industry. The Tariff Board reports for dyeing and finishing woolens and worsteds<sup>2</sup> that the wages of male dyers are in

<sup>1</sup> "Report of the Tariff Board on Cotton Manufactures," 62d Congress, 2d Session, House Document 643. Washington, Government Printing Office, 1912, Volume II, pp. 637-651.

<sup>2</sup> "Report of the Tariff Board on Schedule K," House Document 342. Washington, Government Printing Office, 1912, Volume II, pp. 810-811.

four-fifths of the cases under \$500, and in nine-tenths of the cases under \$700. The highest wage class given in this schedule is twenty-five cents per hour (about \$700 per year). Eight per cent. of the male dyers, 15 per cent. of the male finishers, and 3 per cent. of the female finishers received wage rates above that amount. This investigation is obviously faulty in the comparatively small proportion of the employees included. It is suggestive, however; and corroborated as it is by the records of other investigations, it must go almost unchallenged.

The report on the wages in the woolen, worsted, and cotton mills of Lawrence, Mass.<sup>1</sup> (November, 1911), is corroborative, for one town, of the general situation as suggested by the Tariff Board's report. Half of the men received a wage rate of less than \$500; seven-eighths, of less than \$600. More than four-fifths of the women fell in the group under \$500, and 94 per cent. received less than \$600. The schedule grouped all earnings above \$600 in one class. These figures represent the actual earnings of males and females eighteen years of age and over during one month in 1911.

Similar wage figures were compiled for the textile mills (largely hosiery mills) of Little Falls, N. Y.<sup>2</sup> These figures represent actual earnings during parts of September, 1912. Among the total of males employed, three-fifths earned at the rate of less than \$500, while

<sup>1</sup> "Report on the Strike of Textile Workers in Lawrence, Mass.," Charles P. Neill, Senate Document 870, 62d Congress, 2d Session. Washington, Government Printing Office, 1912, p. 74.

<sup>2</sup> "The Little Falls Textile Dispute," New York State Department of Labor, Advance Report of the Bulletin for March, 1913. Albany, 1913, pp. 10-11.

nine-tenths earned at the rate of less than \$750 per year. Of the 2,736 women, 99.8 per cent. earned at the rate of less than \$750 per year, while three-quarters fell below \$500. This period under investigation is described by the report as one of normal working conditions.

The inferences from these figures for special towns are corroborated, in large measure, by the special publications of the United States Department of Labor, dealing with the textile industry. These figures, while incomplete and open to question, because of the uncertainty as to the manner in which the factories and employments under consideration were selected, are nevertheless suggestive of the general situation. In the cotton industry, three-fifths of the males, and four-fifths of the females received wage rates of \$500 per year; while 97 per cent. of the males, and 99 per cent. of the females had wage rates of less than \$750 per year.<sup>1</sup> The wage rates in the woolen industry are considerably higher, though at about the same level as that for the special reports. The wage rates reported for the textile industries in Massachusetts and New Jersey amply confirm the results derived in these special investigations.<sup>2</sup>

<sup>1</sup> "Wages and Hours of Labor in the Cotton, Woolen, and Silk Industries," United States Department of Labor, Bulletin 128. Washington, Government Printing Office, 1913, pp. 30-34.

<sup>2</sup> See also "Wages and Regulations of Employment in the Dress and Waist Industry," United States Department of Labor, Bulletin 146. Washington, 1914; "Wages and Hours of Labor in the Hosiery and Underwear Industry," United States Department of Labor, Bulletin 154. Washington, 1914; "Wages and Hours of Labor in the Cotton, Woolen and Silk Industries," United States Department of Labor, Bulletin 150. Washington, 1914.

The textile industries show an unusually low wage scale. Practically none of the men receive more than \$1,000; with the exception of woolen finishers, only a tenth receive more than \$750. Among the women the rates are even lower. For them a wage over \$750 is not found much oftener than once in a hundred times, while a wage of less than \$500 is paid in three-fourths or four-fifths of the cases.

While so many data have been compiled for textiles, the other industries have not been neglected. A number of wage figures are available for lumber and kindred industries. The Tariff Board published a report on the wages for certain selected occupations in the paper industry,<sup>1</sup> and the Bureau of Labor has a study of wages in the lumber and furniture industries. The men employed in the paper industry receive rates of less than \$750 in four-fifths of the instances, and of less than \$1,000 in nineteen-twentieths of the instances. The wage rates in the lumber, millwork, and furniture industries are approximately the same as those for pulp and paper, although lumber falls lower than either of the other two. Two-fifths of the men in the lumber industry receive less than \$500 per year; nine-tenths receive less than \$750. Millworkers receive less than \$750 in three-fifths of the cases, and less than \$1,000 in three-fourths; while furniture makers (male) receive less than \$750 in half of the cases, and less than \$1,000 in nine-tenths of the cases.

The data presented by the Department of Labor for the clothing industry are so meager as to be almost

<sup>1</sup> "Report on Paper and News-print Paper Industry," 62d Congress, 1st Session, Senate Document 31. Washington, Government Printing Office, 1911, p. 111.



unusable. The total number of persons included in the statement is six thousand women, and seven thousand men.<sup>1</sup> Since there is no certainty as to the manner in which the selection was made, and since there is little or no corroborating evidence, the material must be passed over.

The study of wages in the cigar industry, which the Department presents, is somewhat more illuminating, because it is more careful and detailed.<sup>2</sup> Still the number of employees for whom evidence is submitted is woefully small. Among the 3,615 males, three-tenths received a wage of less than \$750, and half a wage under \$1,000. Four-fifths of the 7,551 females received less than \$750. Anyone who takes the pains to examine these figures cannot help feeling that they do not adequately represent the cigar industry.

An interesting analysis of the work of women in the finishing department of the glass industry appeared in connection with the study of "Woman and Child Wage-Earners." The study, which covered the glass industry with a degree of thoroughness, shows 2,774 women engaged in finishing, for whom satisfactory data could be secured. The chief interest in these figures lies, not in the wage scale which they reveal—there is nothing unusual in that—but in the fact that Mr. Manly, in making the study, procured for this group of women the actual earnings, as well as the wage rates. Thus far, in the course of this chapter, wage *rates* have been considered almost exclusively,

<sup>1</sup> "Wages and Hours of Labor in the Cigar and Clothing Industries," 1911, and 1912, United States Department of Labor, Bulletin 135. Washington, Government Printing Office, 1913, pp. 25-80.

<sup>2</sup> *Ibid.*, pp. 5-25.

and the yearly rate has been derived by multiplying the weekly wage rate by fifty-two, and the monthly wage rate by twelve. Under these circumstances, no allowance is made for loss of time due to sickness, shortage of orders, and other causes of unemployment. The following table for the glass industry study makes the contrast in excellent form.

TABLE VIII.—EARNINGS OF WOMEN IN THE FINISHING DEPARTMENT  
OF THE GLASS INDUSTRY <sup>1</sup>

	<i>Total Employed</i>	<i>Earnings Per Year of Less Than</i>		
		<i>\$250</i>	<i>\$500</i>	<i>\$500 and over</i>
Full time.....	2,774	38.9	97.4	2.6
Actual earnings.....	2,774	56.5	98.1	1.9

The wage scale shown by this table for the glass industry would lead one to conclude that two-fifths of the women were receiving less than \$250 per year. As a matter of fact, the proportion of women whose earnings were less than \$250 per year was nearly three-fifths. Deductions in some form nearly always drag a wage scale considerably below its face value.

The wages actually paid in the Chicago slaughtering and meat packing industry are given in a most satisfactory way by J. C. Kennedy in a recent study. Mr. Kennedy obtained access to the pay rolls, and was thus able to discover the wages actually paid during a long period. The figures are peculiarly interesting, relating, as they do, to one of the chief centers in which one of the great industries in the country is carried on. It is, indeed, difficult to over-

<sup>1</sup> "Woman and Child Wage-Earners in the United States," Charles P. Neill. Washington, Government Printing Office, 1911, Volume III, p. 405.

emphasize their importance as portraying the present income situation in a leading industry.

TABLE IX.—WEEKLY WAGES ACTUALLY PAID IN CERTAIN PACKING PLANTS OF CHICAGO <sup>1</sup>

	Total Employed	Per Cent. Receiving Wages Per Year of Less Than			
		\$250	\$500	\$750	\$1,000
Males.....	7,096	12	39	83	96
Females.....	1,064	27	92	99	—

A quarter of the women and a tenth of the men are paid less than a \$250 rate; two-fifths of the men and nine-tenths of the women fall under \$500. These figures would be further modified if they made allowances for unemployment throughout the year. As they stand they are the result of a simple process of multiplication.

There is every difficulty in the way of generalizing from these scattered instances.<sup>2</sup> On the face of the

<sup>1</sup> "Wages and Family Budgets in the Chicago Stock Yards District," J. C. Kennedy. Chicago, University of Chicago Press, 1914, p. 12.

<sup>2</sup> A number of additional figures may be found in the following reports:—"Wages of Women in the Laundries in Massachusetts," Bulletin No. 5; "Wages of Women in the Brush Factories in Massachusetts," Bulletin No. 1; "Wages of Women in the Corset Factories in Massachusetts," Bulletin No. 2; "Wages of Women in the Candy Factories in Massachusetts," Bulletin No. 4; "Minimum Wage Commission of Massachusetts," Boston, 1914. "Wage-Earning Women of Kansas City," *op. cit.*, pp. 62-72; "Report of the Conditions of Wage-Earning Women in Connecticut," *op. cit.*, pp. 35ff.; "Hours and Earnings of Women in Indiana Mercantile Establishments," *op. cit.*, pp. 58ff.; "Annual Report of the Bureau of Labor Statistics of Ohio," 1911. Springfield, pp. 21ff.; "Third Report of the New York Factory Commission," 1914. Albany, 1914, pp. 31-41.

return, the wages for men are much higher than the wages for women. Both appear distributed over the wage scale in varying proportions, depending upon the industry. With the exception of the finishing departments of the woolen mills, the wages paid in the textile industry appear to be lower than those paid in any other of these industries; the wage rates fall in the vast majority of instances for the men, under \$1,000, and for the women, under \$750. In most industries, from a third to a half of the men receive less than \$500; and usually, at least three-quarters receive less than \$750. Four-fifths of the women are paid less than \$500. Women working in the manufacturing industries receive, for the most part, wages varying from \$250 to \$500.

*VII. Wage Rates Paid in the Manufacturing Industries,  
Reported by Certain States and by the United States  
Census*

Much emphasis has been placed upon the wage figures derived in the course of special wage investigations, because in most cases these figures represent actual conditions at a specific time. There remain the general figures for manufacturing industries published by certain States and by the United States Census Bureau. In neither case do these figures materially alter the conclusions which were derived as a result of the study of special wage investigations.

The wage facts secured by many States are grossly inadequate.<sup>1</sup> Nevertheless, there is a growing body of usable information relative to the wage scales paid

<sup>1</sup> "Wages in the United States," *op. cit.*, Chapters 1 and 2.

in certain States. As regards the excellency of their figures, New Jersey and Massachusetts are well in the lead. Several other States are making strenuous efforts to duplicate or better their good work.

The State wage figures are usually given in two forms. First, in the form of wages for the entire State; and second, in the form of wages for certain industries. Several States present, in addition, wages for the larger cities. The figures for an entire State are meaningless in one sense, because of the great diversity of industries. In another sense, they are profoundly significant. The wage statistics, for example, of Massachusetts, show for six hundred thousand men and women (out of a total of 1,531,068 gainfully employed persons in 1910) what the wage scale is in the manufacturing industries. There could be no more effective metrical test applied to the community, unless the actual family incomes were measured. The wage scale for the manufacturing industries of a manufacturing State shows at least roughly the economic background of the people living in the State. For both New Jersey and Massachusetts, two of the six leading manufacturing States, there are extant sufficient wage figures to paint the economic background of the great body of the industrial population in these States.

The detailed evidence already cited for special industries and special studies furnishes a background for a summary of wage facts for the manufacturing industries. The statements for State and Census wage facts could be made equally detailed. In order to avoid such duplication, a general summary of the most important State and national data has been placed in one table.

TABLE X.—CUMULATIVE PERCENTAGES OF ADULT MALES EARNING SPECIFIED WAGE RATES

Industry	Year	Total Adult Males	Percentages of Adult Males Receiving Wage Rates per Year of		
			Less Than \$500 Per Cent.	Less Than \$750 Per Cent.	Less Than \$1,000 Per Cent.
California <sup>1</sup> .....	1911	107,950	7	30	63
Iowa <sup>1</sup> .....	1912-13	48,710	12	61	87
Kansas <sup>1</sup> .....	1909	50,720	26	70	91
Massachusetts <sup>1</sup> ..	1912	420,524	28	67	90
New Jersey <sup>1</sup> ....	1911	243,753	36	71	89
Oklahoma <sup>1</sup> .....	1911	17,007	17	68	90
Wisconsin <sup>1</sup> .....	1909	141,218	32	77	94
Census <sup>2</sup> .....	1905	2,124,069	47	79	94
U. S.—Iron and Steel <sup>3</sup> .....	1910	172,706	8	60	85
U. S.—Textiles <sup>4</sup> .	1910-12		60	90	95

An examination of the figures for various States, and for all of the leading industries of the country, corroborates the conclusions already made from the special reports. The wage rates are such that, making no allowance for unemployment, about one-tenth of the males receive more than \$1,000 per year, and about one-eighth of the females more than \$500 per

<sup>1</sup> Compiled from the Reports of the State Bureau of Labor.

<sup>2</sup> Census of Manufactures, 1905, Bulletin 93, "Earnings of Wage-earners." Washington, 1908, p. 11.

<sup>3</sup> "Report on the Condition of Employment in the Iron and Steel Industry," Senate Document 110, 62d Congress, 1st Session, Vol. I, p. xxvi.

<sup>4</sup> Compiled from the "Reports of the Tariff Board," from the "Report by the Federal Department of Labor on the Strike at Lawrence," 1912, and from the State reports.

year. At the same time, from a quarter to a third of the males receive less than \$500 per year, and from a tenth to a fifth of the females receive less than \$250 per year. Thus the great bulk of the males are paid wage rates varying from \$500 to \$1,000, while the great bulk of the females are paid wage rates of from \$250 to \$500. To this general statement, Oklahoma and California are exceptions. The wage rates there are somewhat higher than in the East.

### *VIII. The Incomes of Wage-Earners Engaged by Public Utilities*

Recent studies have made available a few figures which show the scale of wages paid by public utilities. These wages are higher than the wages for industry in general, but they are not materially higher than the wages paid in the other man-employing industries.

Three States (New York, Oklahoma, and Kansas) publish wage rates for public utilities. The New York figures are for the First District. There were in 1911 38,139 employees on the street railways of the First District. Of this number the wages of 9,635 men employed by "selected" companies are tabulated. Of the total, 5 per cent. received less than \$500 per year; two-fifths received less than \$750; and nine-tenths received less than \$1,000.<sup>1</sup> The gas and electric companies in this same district report the employment of 16,741 men, for whom the range of wages is considerably higher than the range for street railway employees. Eight per cent. were receiving wage rates

<sup>1</sup> "Annual Report of the Public Service Commission of New York," First District, 1911, Volume II, pp. 334-339.

under \$500, 45 per cent. under \$750, three-quarters under \$1,000, and nine-tenths under \$1,250.<sup>1</sup>

The figures for the two Western States differ little from those for New York. The Oklahoma report, covering 1,129 adult males engaged in public utilities, gives the wage rates for two-thirds as under \$750, and nine-tenths as under \$1,000.<sup>2</sup> In Kansas, of the 702 adult males reported as employed, three-quarters received less than \$750, and 95 per cent. less than \$1,000.<sup>3</sup>

The compensation rates of persons employed in public utilities are fairly uniform. These occupations apparently range among the better-paid occupations of the country.

### *IX. The Wage Rates for Mines and Quarries*

The volume of the Thirteenth Census devoted to mines and quarries omitted any statement of classified wages. The only general data on the subject appear in the special Census report on mines and quarries issued in 1902.<sup>4</sup> The data contained in this volume are now so thoroughly out of date that only a brief reference to them will be made.

There were in 1902 581,728 wage-earners engaged in the production of all forms of minerals. The wage rates per day of these men are given by industries, by occupations, and by geographical divisions.

<sup>1</sup> "Annual Report of the Public Service Commission of New York," First District, 1911, Volume III, p. 280.

<sup>2</sup> "Annual Report of the Department of Labor," Oklahoma, 1911-12, p. 209.

<sup>3</sup> "Annual Report, Kansas Bureau of Labor," 1909. Topeka, 1910, p. 21.

<sup>4</sup> Washington, Government Printing Office, 1905, pp. 90-101.



The tables showing the classified earnings of all wage-earners in the mining industry report 16 per cent. of the men as receiving less than \$1.74 per day (\$500 a year); 62 per cent. received less than \$2.49 per day (\$750 per year); and 93 per cent. received less than \$3.49 per day (\$1,050 per year). This showing, on its face, makes the wage scale in the mining industry correspond rather closely with that in the manufacturing and mercantile industries.

One further fact of the greatest significance must be borne in mind,—the ratio of unemployment in the mining industry, particularly in the coal mining industry, is comparatively high.<sup>1</sup> The Federal report on the production of coal in 1910<sup>2</sup> shows an average number of days worked in the bituminous coal mines of 217 out of a possible 306 days, and in the anthracite coal mines of 229 out of a possible 306 days. Under the circumstances it is not fair to make a direct comparison between the wage rates in manufacturing and in mining, derived by multiplying the day rate by 306. The proportion of unemployment, particularly in the coal mining industries, is very much higher.

Almost one-half of the total number of persons employed in mining in 1902 were in the bituminous coal mines. Of the bituminous coal miners, 280,638, only 9 per cent. were paid less than \$1.75 per day; 20 per cent. were paid less than \$2.00 per day; 58 per cent. were paid less than \$2.50 per day; and 95

<sup>1</sup> "Unemployment in the United States," Scott Nearing, Quarterly Publications of American Statistical Association, Volume II, September, 1909, p. 534.

<sup>2</sup> "Mineral Resources of the United States." Washington, Government Printing Office, 1911, p. 41.

per cent. were paid less than \$3.50 per day. The rates of pay for anthracite coal mining (employing 69,691 men) were very much lower than the rates for bituminous coal mining. Thirty-one per cent. of the anthracite coal miners received less than \$1.75 per day; 46 per cent. received less than \$2.00 per day; 74 per cent. received less than \$2.50 per day; and 95 per cent. received less than \$3.50 per day.

The production of iron ore involved the employment of 38,851 men. These were paid less than \$1.75 in 22 per cent. of the cases, less than \$2.00 in 37 per cent. of the cases, less than \$2.50 in 78 per cent. of the cases, and less than \$3.50 in 99 per cent. of the cases.

Among the 36,142 wage-earners engaged in gold and silver mining, 2 per cent. were paid less than \$1.75; 8 per cent. were paid less than \$2.50; and 67 per cent. were paid less than \$3.50.

There is thus a marked variation in the wage rates paid for mining in the different mining industries. The fairest comparison, if a comparison between wages in manufacturing and wages in mining industries is to be made, must recognize the geographical wage variations. Most of the wages from manufacturing industries relate to the North Atlantic and the North Central States. An examination of the figures for mining shows that the wage rates paid in these States are considerably lower than the wage rates in the Western States, where smelting and refining are the chief mining industries. Two-fifths of the wage-earners employed in mines and quarries in the United States were in the North Atlantic States; a third were in the North Central States; and only an eighth were in the Western States. The great bulk of the mining

work is therefore carried on in the North Central States. The wages in the North Atlantic Division which relate to coal mining, chiefly, are somewhat lower than the wages reported for the North Central States.

Although these figures for mines and quarries are so far out of date that no well-marked conclusions may be based on them, they indicate that in the mining industry wage rates are similar to the rates in the manufacturing industries in like geographical sections.

#### *X. Service Incomes in Organized Industry*

The figures cited in this chapter are far from conclusive. They are, in many cases, woefully incomplete. They cover only a part of the industries in which men and women are gainfully employed. In the face of these disadvantages, the most surprising thing about the figures is their uniformity. Collected by different organizations, and under essentially varied conditions, the product of general State and Federal inquiry and of specific individual wage investigations, the figures agree marvelously. Wages in the West are generally higher than wages in the East.<sup>1</sup> Throughout the country lying east of the Rocky Mountains, and in the industrial sections lying north of the Mason and Dixon line, the facts appear to be unquestionable and unquestioned. Subsequent investigation will reveal minor variations, but the large wage facts will still stand as they do in these summaries.

A comparatively small percentage of the persons

<sup>1</sup> "Wages in the United States," *op. cit.*, Chapter 8.

gainfully employed in modern organized industry are on a salary basis. Of those so classified, the great proportion are foremen, assistant superintendents and managers, and clerks, whose salaries, for the most part, differ little from the salaries of the better-paid wage-earners. A small proportion of them are paid more than \$1,000 per year, and a vanishing number receive more than \$1,500. The vast majority of those gainfully employed in organized industry, probably 95 per cent., are paid a wage or its equivalent.

The conclusions from these figures are inevitable. The great majority (almost nine-tenths) of the adult males receive wage rates of \$1,000 per year, or less. An equal proportion of females receive less than \$750. The wage rates of four-fifths of the males fall below \$750; a third below \$500. Among female wage-earners the scale is much lower. Three-quarters or four-fifths are paid less than \$500 per year. These statements make no allowance for unemployment, which is a constant irreducible factor. Unemployment due to lack of work alone is generally met with.<sup>1</sup> Add to this the unemployment produced by sickness, accidents, and other personal causes, and the proportion is still higher.

The wage facts for organized industry make one thing impossible. Hereafter no one need discourse at length on the theme of the spendthrift laborer and

<sup>1</sup> An idea of the extent of unemployment may be gained from the reports of the New Jersey and the Massachusetts Labor Bureaus, showing the number of days worked in the various industries. See Bureau of Statistics of New Jersey, 1913. Paterson, 1914, pp. 125-128. Also Statistics of Manufactures for 1911, Bureau of Statistics for Massachusetts, Public Document 36. Boston, 1913, p. 137.

the ensuing hardship of his family. The wage scale of the country is so adjusted at the present time that the vast majority of the recipients of wages and salaries are paid a wage which, when compared with the cost of a decent or fair standard of living, appears in many instances insufficient, and in many others, barely adequate, to procure the simplest decencies of life. The time may come when the laborer's condition is due to his extravagance and lack of foresight. For the present, the scale of service income offers an explanation so telling that it would require hardihood of an unusual type to saddle even a major portion of the blame for the situation on the individual worker.

## CHAPTER V

### THE POSSIBILITIES OF PROPERTY INCOME IN THE UNITED STATES

#### *I. The Impersonal Nature of Property Income Data*

UNLIKE service income, which may be computed readily for individual earners, property income must be reckoned in a wholly impersonal way. Service income is a return for services; property income is a return for property ownership. Services may be measured in terms of time or of amount of product. A man works ten hours, or he weaves ten yards of cloth. The service is apparent, and the resulting income may be computed. Property income is a return for property ownership. A man holds title to a piece of land; he has a mortgage; he holds a stock certificate—these evidences of property ownership bring in a specified amount of property income. He may have more or less of these property titles without modifying his activities or increasing his contribution to society.

Property income would be measurable in terms of individual holdings if there was any method of determining the exact amount of income-yielding property in the possession of the different persons in the community. For the time being, at least, such a possibility is indeed remote. Even the income tax returns will afford little idea of the amounts of property income received by the great bulk of people.

Another complication in the determination of the exact amount of property income that is paid to individuals arises from the fact that the same individual may have a dozen, or a score of sources from which property income is secured. Few men of property put all of their eggs in one basket. Instead, they scatter their investments judiciously. The pay rolls of the establishment for which a man works will, in the great majority of cases, reveal the entire amount of his service income. Property income can be arrived at through no such simple device.

However desirable may be the accurate determination of the amounts of property income paid to individuals, such facts are not essential to the present discussion. The real question at issue here is—"What amount and what proportion of the values created in the productive processes are paid to property owners?" The truly significant issues raised by a discussion of property income are in no sense personal. Those who are giving their time and energy to the productive work of the community require a return sufficient to maintain their efficiency. The receipt of property income presupposes no such relation. Property income is a payment by industry to those whose titles to property give them a legal claim to such payments. How great is this payment? Is it growing or decreasing in amount? The question as to what individuals receive property income, or whether it goes to a tenth or a twelfth of the citizens is immaterial. So long as property income is paid, it stands, to its full amount, as a tax on industry and on society.

Incidentally it should be remembered that, in industrial communities, the great mass of men and

women depend upon service income almost exclusively, while a comparatively small part of the population relies upon property income for its maintenance. Many wage-earners have small properties, investments, savings or insurance policies. The return from such sources constitutes a comparatively small portion of their total income. A part of the population of industrial communities, perhaps a fifth, perhaps a tenth—have property which yields a considerable proportion of the total individual or family income. There is no way of determining how large this group of recipients of property income really is. All indications point to the conclusion that it comprises only a small fraction of the population.

### *II. New Light on Property Income*

A quarter of a century ago, any discussion of property income, except for income on lands, would have been impracticable. The intangible, unmeasurable form in which wealth existed made any computation of the returns derived from it, next to impossible.

Fortunately for the student of income, modern business developments have aimed to make income certain, definite, and measurable. The results are unquestionably advantageous to the investor. They are no less desirable from the standpoint of the investigator.

Under the old régime, a man with energy and initiative built up a business. He began with little, or nothing, and through a series of years acquired both business experience and wealth. This man knew his own business. He was organizer and director, and the



success or the failure of the enterprise depended largely upon his personality. There were few elaborate systems of bookkeeping. Cost-keeping was generally unknown. The business organizer was cook, captain, mate, and crew.

### *III. Stabilizing Business*

The intensely personal nature of the one-man business led to constant upsets and disturbances. The business director might suffer a breakdown in health, physical or mental. When his time for retirement came, unless he succeeded in finding a worthy successor, his business was very apt to die with him.

The timidity of the investor lies at the basis of demand for increasing business stability. The pioneer investor in any field rushes into get-rich-quick schemes with the gusto and enthusiasm peculiar to those who cross thresholds upon which angels fear to tread. This type of pioneer investor soon gives place, however, to the careful, methodical, conservative man, who has funds, and who is trying to secure a competence against his old age; who has dependents expecting him to guarantee their economic future; or who has been made trustee of funds or property which he must guard at the peril of his good name. Then, too, there are many small investors with a few hundred or a few thousand dollars, who are looking for a safe place to put their surplus. With the upgrowth of civilization and the increase in wealth, goes an insistent demand for investment stability.

The need of stability proved father to the invention. A means was eventually devised and perfected

whereby vested incomes could be stabilized and guaranteed to an extent heretofore undreamed of. This means was the corporation.

The corporation was peculiarly fitted to supply the industrial demand because of three characteristics. In the first place, it was immortal. Unlike the individual, it could not die unexpectedly and disturb the business world. In the second place, the liabilities of investors in corporations were limited to the amount of the investment. No such limitation had been possible under the partnership laws which made each partner individually liable for all of the business debts of all of his partners. In the third place, by issuing securities the corporation could divide up its total investment capital into amounts that enabled the small investor to participate in the profits of a large business. These advantages made the corporation an ideal form of business organization from the standpoint of the business world, as well as from the standpoint of the investor.

Another feature of corporate organization rendered it desirable as a means of directing business enterprise. The affairs of the corporation were in the hands of a board of directors rather than in the hands of an individual business manager. The books of the corporation were elaborately, if sometimes mendaciously kept. The industry in question was always subject to the dictation of the board of directors, although the directors did not always exercise their directive power. Still they were legally subject to the will of the stockholders, so that even the small holder of securities had a theoretical say in the conduct of the business. The corporation was therefore, in a sense,

democratic. A multitude of counselors was substituted for one man's judgment, and that section of the public which had investable funds was enabled to participate in business enterprise.

The old-time private business—shirt sleeves to shirt sleeves—could be disintegrated by the stupidity or rascality of the organizer; the new corporate business under the control of a board of directors can be taken into court by a minority stockholder, and forced to make an accounting. This potential publicity of business accounts was the chief guarantee to business stability.

The old-time business, even in those cases where careful books were kept, was comparatively uncertain and indefinite. The corporation business is certain, definite, and measurable to a far greater degree. This definiteness is the result of security issues, and of modern systems of accounting.

#### *IV. Corporation Accounting—An Open Sesame to Business Facts*

The issuing of corporate securities provided the first accurate measure of the volume of invested funds, and of the returns received for investment. There are evidences that the English cotton mill owners of the early nineteenth century made in some cases 100, 200, or even 300 per cent. profits. Such feats are credited to Robert Owen and other successful managers. The amount of profits made by an incorporate concern at the present time is publicly ascertainable to a degree of definiteness undreamed of by early nineteenth-century enterprise.

Capitalization in terms of stocks and bonds affords a practical measure of the amount of wealth invested

in a business. This limit, to be sure, is not absolute. Many stocks have been watered. On the other hand, businesses are frequently capitalized for a less amount than the value of business assets. Nevertheless, in the great majority of cases, the amount of capitalization bears a fairly definite relation to the amount of property owned by the business; and this capitalization, coupled with the rate of return on stocks and bonds, tells a measurably intelligible story of the worth of a given enterprise.

Under the old system of business no returns were definitely established unless a business man had rented land or borrowed money. In those cases, his rent and interest were fixed quantities. The issuing of bonds fixes the amount of property income which the business issuing the bonds must always pay.

The old-time business, in a period of depression, paid no returns to the man who had invested his fortune and his life in its upbuilding. The modern business with a million-dollar bond issue pays \$50,000 each year to the bondholders, irrespective of the conditions of business. Whether the world of affairs be rejoicing at prosperity or suffering in the throes of business adversity, the interest charge must be met, because the moment this payment of interest ceases the business goes into bankruptcy. Stocks, as a rule, do not furnish so definite a measure of value as bonds. However, when dividends are paid on stocks, a fairly good idea of the values behind the business may be secured.

Bonds are now a measurable basis for computing property values in business. Each passing year places stocks more nearly in the same category. The

issuing of securities has probably done more than any other single act to tell the world at large about business capitalization. When security issues came in at the door of business, dark hued secrecy flew out at the window never to return.

The corporate form of business possesses another supreme advantage from the standpoint of the investigator of income. Under it all wages and salaries are fixed. The individual business-man or firm member took what he could get out of the business as his share of the profits. The president of a corporation receives a salary which is as definitely fixed as the salary of the humblest employee in the concern. Thus the incorporation of business has resulted in establishing the amounts of property values in business, and in giving an accurate measure of the service incomes received by all of those who do the work of the business world.

The books of any corporation show the exact amount of service income which is paid to each individual who is rendering services to the corporation, at the same time the books show the total amount of property income that the corporation pays each year to its stockholders and to its bondholders. Such information is in the former case, personal; in the latter case, general; but it makes an absolute line of demarcation between service income on the one hand, and property income on the other.

#### *V. A New Form for Expressing Wealth*

The issue of corporate securities has one further advantage. Stocks and bonds are more than a measure of wealth. They are in a certain sense a certifica-

tion of wealth. The Anglo-Saxon mind has been trained to regard property as a very holy thing. One of the most cherished clauses in the Constitution declares that private property shall not be taken for public use without fair compensation. The mere existence of a bond or of a stock certificate is regarded by the property-reverencing mind as a property equivalent.

The issue of corporate securities presents a new problem to the mind which venerates property rights. It was easy to see that a piece of land, or a house, or a coat, or a walking-stick was property, and therefore inviolable. Another question is raised when business incorporates itself. The private business had no fixed limits. If it made profits, they went to the business owner. If it did not make profits, it disappeared from the business world, and a competitor took its place. When a cotton mill owner was forced to the wall, he did not go into court, and demand that someone pay him a return for the business reputation, trade-marks, and the business clientele which he had lost in the competitive *mêlée*. The private business man had invested his own property. If he lost it, he alone was to blame. Furthermore, it was taken for granted that he should be at the mercy of competitive conditions. The property of the corporation is rendered definite by the issuing of securities. The bondholder takes his certificates of indebtedness to court and makes certain demands upon the business whose securities he owns. The bondholder feels, and the public feels, that each thousand dollar bond stands for a thousand dollars in wealth upon which the business is bound to pay a return.

Corporate securities to the public mind, certify wealth possession. A bond, surely, and a stock certificate, probably, represent a fixed quantity of wealth. The public recognizes this fact; the courts recognize it; and the owner of such a certificate regards himself as the owner of so much property. He has never seen the property; his only assurance of its existence lies in his certificate. Nevertheless, he banks heavily on that assurance.

The general conversion of business into corporate business involving the issue of securities has led industrial and commercial ventures to reveal the amount of wealth invested in them, the amount of returns paid the owners of this wealth, and also the entire amount of service income paid by the business.

It is therefore possible to take the books of any corporate business and ascertain the total amount paid for services and the total amount paid as property income. The advantage which the student of income derives from this fact can scarcely be overrated in an age when the incorporation of business is so general.

#### *VI. The Movement toward Concrete Property Valuation*

At the present time, steam and electric railroads, public utilities, and financial institutions are almost entirely on a corporate basis. The manufacturing industries of the country report that of the total products in 1909 (amounting to slightly more than twenty billion dollars, 10 per cent. were turned out by individual businesses, 11 per cent. by partnership businesses, and 79 per cent. by incorporated businesses.

Agriculture is the one great industry which has not yet adopted the corporate form of business organization. The traditional farmer inherited or bought his land, and made what he could on it. He kept no books; therefore he had no sense of the valuation which he was creating or receiving. During the past twenty years a very radical change has occurred. The progressive farmer to-day keeps books on which are written down the investment values of the land. In many instances these values are overwritten. Nevertheless, the fact remains that the farmer who has bought land, or the farmer who is working under a mortgage, is learning to believe that he should make his business pay not only a bare subsistence, but a return on the investment as well.

The avowed purpose of the Long Island Railroad and other experimental farms, is to demonstrate to capitalists that the farm, like any other business, can be made to pay a return on capital invested. In a few cases, corporations own farms; in many more cases the individual farmer is learning to insist that the return which he receives for his products shall include interest on a capital valuation which includes the value of his land and improvements.

The tendency of well-to-do people to rent their farms and move into town adds one more item to the list of forces which are building up a proper valuation in agricultural land. Like all property owners who do not work directly with their property, the retired farmer expects a return from his farm in proportion to what he believes the farm to be worth.

When the time comes, and it is coming very rapidly, that farmers keep accounts, take inventories, and de-



mand a return proportionate to the amount of wealth which their farms represent, the last great item will have been added to the measured wealth of the country.

A long step in the direction of farm value measurement has already been taken. The Census publishes an elaborate schedule showing the value of farm lands, of farm buildings, and of farm machinery. Although these values are probably over, rather than under, the true valuations, they nevertheless furnish a point of departure from which error can be eliminated, and truth ascertained.

### *VII. Property Income Possibilities*

Although so many steps have been taken toward stability in investment and regularity in the returns on property, a distinction must be made between possible and actual property incomes. In the first place, all of the property which might be made to yield an income has not yet been assessed and placed upon the books. In the second place, records of the income actually paid are so incomplete that there is no way of showing accurately what the total amount may be. In this and the succeeding chapter two questions are raised. First, the question as to how much wealth there is now existing in the United States on which property incomes might be paid; second, the question as to the amount of property income now being paid for which a statistical record can be secured.

What is the amount of property in the United States that might pay or that may pay property income?

What property-income possibilities exist? How much property is there in the United States from the ownership of which income may be derived? How great is the potential property income of the country? Put the question in any of its many forms, the essential elements in the problem remain the same.

How simple the answer might be! If it were only possible to tabulate and take the totals for all of the property in the country that may be used to net the owner an income, and then the totals of income actually paid to property owners, the matter would be settled in a twinkling. There would be no need of a discussion and there could be no question as to the facts.

As the matter stands, the first duty of the investigator is to set down, with the utmost accuracy that the figures permit, a list of the property holdings in the United States from which income might be derived. Nor can this be done directly or authenticated to any considerable degree. The sources of information regarding the amounts of property income actually paid in the United States are much less complete than those for the income possibilities. Here the information must be drawn from the most scattered sources.

The task is indeed discouraging. Its chief inspiration is the hope that the beginnings here made will lead to more elaborate, publicly financed investigations, that will substantiate existing data and compile additional information from sources that are beyond the reach of the private investigator.

In the meantime the available data may be passed in review.

*VIII. Income-Yielding Property in the United States*

The most comprehensive survey of property in the United States is presented in the Census estimates of national wealth. The shortcomings of this material have been noted elsewhere; nor is it the purpose of the present study to assume any large degree of accuracy in the results. On the contrary, they are undoubtedly subject to a wide margin of error. At the same time, they are at least suggestive of the total wealth values of the country.

The latest available Census figures on national wealth were published in 1907 and relate to the year 1904. The director of the Thirteenth Census (1910) has published a number of special bulletins on Public Property, Assessed Valuation of Property, Debt, Revenue and Expenditure. As yet, there is no estimate of total wealth, nor is there any definite promise of such an estimate.<sup>1</sup> The circumstances necessitate the use of material that is a decade behind the times. There seems, however, to be no alternative.

The Census figures for 1904 give the total estimated value of all property in the United States as \$107,104,000,000. The distribution of this wealth appears in the following table:

<sup>1</sup> "Up to the present time, no estimates have been made as to the total wealth of the United States in connection with the investigation, Wealth, Debt and Taxation, 1913, although such estimates were made at the last investigation on this subject. The question as to whether estimates of the wealth of the country will be made for 1912, is now under advisement, and it is probable that such statistics will be compiled and given to the public, for the United States, by States." Letter, March 6, 1915, from the Director of the Census.

TABLE XI.—ESTIMATED TRUE VALUE (IN MILLIONS) OF ALL PROPERTY AND OF SPECIFIED CLASSES OF PROPERTY, 1904 <sup>1</sup>

Real Property and Improvements.....	\$62,341
Live Stock.....	4,074
Farm Implements and Machinery.....	845
Manufacturing Machinery, Tools and Implements.....	3,298
Gold and Silver Coin and Bullion.....	1,999
Railroads and their Equipment.....	11,245
Street Railways, Shipping, Waterworks, etc.....	4,841
All Others.....	18,462

These figures give little opportunity for analysis in terms of property income possibilities, because they correspond so imperfectly with the other facts on wealth and property. The separation of farm land and improvement values from the implements and machinery values has a counterpart in the farm values published in the Census volumes on agriculture. Generally, however, capital values, including land, improvements, and machinery appear in a lump sum. Such a practice is made inevitable by the growth of corporate business.

Most of the property listed by the Census would be classed as potential income-yielding property. Real property and improvements, live stock, and farm implements and machinery may or may not yield an actual property income. Where they are used by the owners, no such income is paid directly in the form of purchasing power. On the other hand, such property may be and very frequently is rented, and returns property income to the owners. Manufacturing machinery, and railroads and street railways

<sup>1</sup> "Wealth, Debt and Taxation," Special Report of the Census. Washington, Government Printing Office, 1907, p. 37.

are, for the most part, yielding actual property incomes as almost all public service corporations and the great bulk of manufacturing enterprises are under a corporate form of business organization. The last item in the table "All Others" includes "products of agriculture, manufactures and mining; imported merchandise; clothing and personal adornment; furniture, carriages and kindred property." Such property, as a rule, does not command property income. If this entire item were excluded from the category of income-yielding property, there would remain (1904) approximately ninety billions of property that might yield a property income to its owners.

The Census figures cannot be brought any nearer to date. If they could, the total would, of course, be increased by many billions. Even in 1904, the annual property income possibilities were vast—over two and a half billions, if the property yielded 3 per cent. and over five billions if it yielded 6 per cent.

The Census figures on national wealth may be supplemented by some later, fragmentary figures, which, though less complete, give a far clearer idea of the property income possibilities of the United States at the present time. The figures must be gathered from various sources; there is an unavoidable duplication; nevertheless, they are worthy of at least some consideration.

The most complete single statement of income yielding property is made by the United States Commissioner of Internal Revenue in his annual report.<sup>1</sup> This report includes the financial and commercial

<sup>1</sup> "Annual Report of the Commissioner of Internal Revenue," 1913. Washington, Government Printing Office, 1913, pp. 91-102.

corporations; public service corporations; industrial and manufacturing corporations; mercantile corporations and miscellaneous corporations which report to the Federal government under the Corporation Tax Law.<sup>1</sup> The total capitalization of these corporations is \$96,488,000,000,<sup>2</sup> all of which is in the form of potential income-yielding property.

The figures published by the Commissioner of Internal Revenue cover that part of the business of the country which is transacted under the corporate form of organization. There is, of course, a large amount of business done by partnerships and by private individuals which would not come under this classification. While there is no way to ascertain accurately the amount of non-corporate business, an approximation is possible.

An approximation of the non-corporate business included under the categories covered by the report of the Commissioner of Internal Revenue may begin with the assumption, not strictly accurate, that financial and commercial corporations (banks, trust companies, surety companies and insurance companies), and public service corporations (railroads, steam boats, pipe lines, gas, transportation, storage, telegraph and telephone) are all incorporated. The Internal Revenue figures in these two classes of corporations would then be the total amount of potential income-yielding property in these fields. There remain the other three classes of corporations cited by the Commissioner of Internal Revenue. The indus-

<sup>1</sup> For a detailed description of each class, see page 140.

<sup>2</sup> Capital Stock, \$61,738,000,000; Bonded and Other Indebtedness, \$34,750,000,000.

trial and manufacturing corporations (mining, lumbering, manufacturing, refining, packing and canning) have a total capitalization of \$34,903,872,031. The Census of Manufactures (13th Census, Volume VIII, p. 135) shows that approximately four-fifths of the manufacturing business of the United States is carried on by corporations. The Census Volume on Mines and Quarries (13th Census, Volume XI, p. 33), shows that approximately nine-tenths of the mining business is carried on by corporations. Apparently, it would be fair to add a fifth to the industrial and manufacturing corporate capital reported by the Commissioner as representing the partnership and single-man capital invested in similar businesses. The last two classes cited by the Commissioner of Internal Revenue include dealers in coal, lumber, grain, and all other merchandise; and architects, contractors, hotels, theaters, etc. The total capitalization of these businesses is \$17,633,333,157. Broadly speaking, these businesses are peculiarly non-corporate in their organization. It may be guessed that the seventeen billions of corporate capital constitutes not more than a half or two-thirds of the total capital invested in mercantile and miscellaneous industries. If such is the case, another ten or fifteen billion of dollars could be added to the total returns cited by the Commissioner of Internal Revenue as representing the non-corporate business falling under these last two classes. The approximated additions to the total figures for corporate business capital cited by the Commissioner of Internal Revenue would equal from fifteen to twenty billions.

The estimated additions to the total corporate

capitalization (ninety-six billions) as reported by the Commissioner of Internal Revenue, are extremely rough. They indicate, however, that the income-yielding values employed in those branches of American business reported on by the Commissioner of Internal Revenue in 1913 were in the neighborhood of 110 or 115 billions. All of these values were expected to pay property income to the owners.

There are a number of classes of income-yielding property not included in the statement of the Commissioner of Internal Revenue. Chief among them, are farm property, public indebtedness, and city real estate. The total value of all farm property in the United States, April 15, 1910, was placed at \$40,991,000,000.<sup>1</sup> The values were divided as follows:—land, \$28,476,000,000; buildings, \$6,325,000,000; implements and machinery, \$1,265,000,000; domestic animals, poultry and bees, \$4,925,000,000. These figures were collected in the course of the regular Census.

The total net public debt (total indebtedness less sinking fund assets or funds available for payment of debt) in 1913 for the Federal government, the State governments, and all minor civil divisions including cities, was \$4,850,460,713.<sup>2</sup> These figures are accurate, and all of the values which they represent were yielding property incomes.

The estimates for city real estate are inconclusive and wholly unsatisfactory. The Bureau of the Census reports that in 1911, the assessed valuation of prop-

<sup>1</sup> "Thirteenth Census," Volume V, p. 28.

<sup>2</sup> "Abstract of Special Bulletins on Wealth, Debt and Taxation," 1913. Washington, Government Printing Office, 1915, p. 17.



erty in American cities having a population of 30,000 or over was \$29,382,000,000.<sup>1</sup> Of this amount, \$23,750,000,000 represented real property, and \$4,091,000,000 personal property. In the first place, the assessed valuation is apt to be below rather than above real value. Furthermore these figures cannot possibly be used in this connection, because there is no way of telling what proportion of the assessed valuation of city property is already represented in the returns for corporations, published by the Commissioner of Internal Revenue. Certainly the corporation owned business property located in large cities is included. Again, these figures are woefully incomplete because there is no method of ascertaining the value of real property in cities and towns having a population of less than 30,000. The houses and privately owned business properties in American cities and towns that may yield or that actually are yielding property income certainly amount to many billions. The exact number, must, for the present, remain a matter of uncertainty.

There are now two methods of procedure. The published figures (other than the Census figures for 1904 on Wealth, Debt and Taxation) may be added at their face value. The sum will be the amount of potential income-yielding property actually reported and tabulated. The other method is to include, in this total, estimates covering privately conducted business and privately owned city real estate. The totals from the latter method will be greatly in excess of those secured by the former method.

<sup>1</sup> "Financial Statistics of Cities," 1911. Washington, Government Printing Office, 1911, p. 324.

The face value returns for income-yielding property are equal to the sum of 96 billions of corporate business property, reported by the Commissioner of Internal Revenue, the 41 billions of farm values and the 5 billions of public debt, reported by the Census office. This gives a total of approximately 140 billions of income-yielding property. There is, in this amount, no allowance for the property invested in non-corporate business, or for the real estate in cities and towns, held by firms or individuals. The statement is, therefore, very incomplete.

The second method of computing the total of potential income-yielding property, while less accurate, is far more inclusive. The Internal Revenue figures should be increased by perhaps fifteen or twenty billions. The city and town real estate, not owned by firms or corporations, must equal tens of billions additional. A highly conservative statement of the problem would place the value of potential income-yielding property in the United States at a sum very considerably in excess of 170 billions.

The figures stagger the imagination. They are unthinkable vast, yet they represent, though only roughly, the facts of possible income-yielding property values in the United States.

The possibilities of property income from the total income-yielding property may be suggested. If the potential income-yielding property of the country (estimated as "considerably in excess of 170 billions") paid a return at the rate of three per cent. on its stated value, the total amount of property income would be considerably more than five billions of dollars. If it paid a return of six per cent., the total amount of

property income would be considerably more than ten billions of dollars. These are the sums that might be paid annually to the owners of property in the United States.

The totals for possible property income may be compared with some service income totals. The wages and salaries paid by the manufacturing industries of the United States in 1909 were \$4,365,612,851; the wages and salaries paid by the railroads in 1912 were \$1,252,347,697; the wages and salaries paid by all of the mines and quarries in 1909 were \$640,167,630. Together these figures total only six and a half billions.

These estimates of total property income-yielding values will, of course, be called into question. The methods of approximation are of necessity, rough, and inaccurate; the possibility of duplicating the same values, under two or more classifications are considerable; many of the figures are themselves open to serious question, since they may represent watered, and not real values. It is for these reasons that the total was placed at a figure "considerably in excess of 170 billions." The results have been stated in such general terms because of the general nature of the figures on which they are based. No one could regret more keenly than the writer, the necessity for these generalizations. At the same time, no one can deny the immensity of the problem. Deduct a few billions or even a few tens of billions from the sum total, and the amount of potential income-yielding property in the United States, is still incomprehensively vast. Take the Internal Revenue figures for corporate business, and prune them to the stalk, reduce the totals for non-corporate business, for farm

values and for urban real estate by as much as you will. After even the most conservative scaling down, there remains a huge sum of American property values that may yield an income to the holders of property titles.

## CHAPTER VI

### PROPERTY INCOME ACTUALLY PAID IN THE UNITED STATES

#### *I. Property on Which Income is Paid*

THE facts regarding the total amount of income-yielding property in the United States are important, yet the real interest for the present study must center in the actual payment of income, rather than in the possibilities for income payment.

The reader will bear in mind the fact that all property does not pay measurable income. Farms worked by the owner, houses tenanted by the owner, tools used by the owner, and other forms of property that are directly employed by the owner to yield him goods, services, or satisfactions, must be excluded from the discussion, because, first, they do not yield purchasing power (the definition here used for income), and second, because they are wholly unmeasurable.

Another factor must be taken into account. All of the property which might yield purchasing power does not necessarily do so. There are mines, railroads, factories, and stores, which, operated on the margin of bankruptcy, never make any return on the property. All enterprises must pay interest on bonds or be declared insolvent, but in great numbers of cases dividends are not paid on capital stock. The Interstate Commerce Commission reports that in 1911, 32 per cent. of the stock of American railroads

was paying no dividend.<sup>1</sup> Thus nearly three billions of railroad property, which on its face should yield an income return, does not do so.

Property income not only varies greatly from one enterprise to another, but it varies considerably from year to year. Thus the railroads of the United States paid in dividends <sup>2</sup>

1908.....	\$390,695,000
1909.....	321,072,000
1910.....	405,771,000
1911.....	460,195,000
1912.....	400,315,000

These figures could probably be duplicated in the annals of any other general industry of the country. Indeed, there are many industries in which the variation would be far more extreme.

There is one further drawback to the accuracy of income facts. Many, and those from industrial enterprises in particular, are in certain cases wholly unavailable.<sup>3</sup> Commissions and investigating bodies have gone thoroughly into the property incomes paid by public utilities, but thus far the inquiries into the returns on property invested in industrials have been meager and unsatisfactory in the extreme.

<sup>1</sup> "Statistics of Railways," 1911, *op. cit.*, p. 35.

<sup>2</sup> Statistical abstract of the U. S., 1913, *op. cit.*, p. 272.

<sup>3</sup> The Moody Company, in reply to an inquiry for compilations showing total interest and dividends paid by industrials in the United States, writes—"So far as we can see, it would be difficult to compile any totals which would represent anything more than somebody's estimate. In many of the States no returns are required from the companies showing the amount of dividends paid, and in fact, there are thousands of industrial corporations whose operations are absolutely inaccessible to outsiders." (Letter dated May 6, 1914.)

The facts regarding the property incomes paid by certain classes of income-yielding property (public utilities, financial institutions, and the like) are easily accessible. The returns for the great mass of industrial capital are indicative rather than conclusive. They are significant for what they suggest, rather than for what they prove. While it will be impossible to compile and present, in this chapter, the total amount of all property incomes paid in the United States, it will be possible to show the extent of the known facts, the relation between property values and property income, and the possibilities for further studies by official bodies. The study of property income is still in its infancy. The work of securing data and of presenting it in formulated detail has been attempted in only a few instances. Nevertheless, some beginning must be made if the incomes yielded by services are to be differentiated from the incomes yielded by property. The data at hand seem to indicate that the time for such a beginning has arrived.

## *II. The Basis for Computing Property Incomes*

Were the means at hand, the simplest method of attaining the goal of this chapter would be to put in a column the total amounts paid in interest and in dividends by the various industrial enterprises, and add the column. There would be in a single sum the answer to the question regarding the total payments of property income in the United States for a given year. The complexity of the figures, and the numerous omissions, make any such simple procedure impossible.

Lacking the figures for adding up a total, the next

handiest method for showing the total of property income would be to arrive at some formula—to say that the amount of property income in a given industry is equal to a certain per cent. of gross earnings, of capital stock, of net earnings, or of some other measure of business values.

There are certain known quantities which may be employed as premises for the solution of this property income problem. The United States Commissioner of Internal Revenue has a fairly complete record of the total bonded indebtedness of corporations in the United States. He has, likewise, a total for the capital stock and for the net income of corporations. There are a large number of cases in which the manuals of industrial statistics furnish a statement of dividends paid. In certain industries, chiefly public utilities, the amounts paid in the form of property income have all been spread upon the records.

The most satisfactory basis for a computation of property income is some form of business receipts—gross earnings, net earnings, gross income, or net income. These four terms have a fairly specific meaning in corporation accounting. Gross earnings is the total of sales or total receipts secured in the general run of business. Net earnings equal gross earnings minus the cost of raw materials and the manufacturing costs. Gross income is net earnings plus income from any outside sources, such as securities held in other companies. Net income is gross income minus interest and taxes. The plan followed by the United States Census of subtracting the cost of raw materials from the total value produced (practically the gross earnings) creates a fifth class—"value



added by manufacture." This fifth class is undoubtedly the most satisfactory for the purpose of an income study, because it gives the amount of value for which the industry under consideration is actually responsible. Since, however, the "value added by manufacture" corresponds directly with no accounting term, it is impossible to work with it, except in connection with Census returns. For practical purposes, "gross sales" or "gross income," corresponding closely to "value of products" (Census), affords the best basis for comparison. Unfortunately, it is seldom available.

In the course of this study, each one of these terms has been tested in the hope that one of them might afford an accurate basis for income computation. One by one they have been rejected, as each proved inadequate.

By chance, the figures coming most readily to hand at the present time are those for net income. The Federal Corporation Tax is a tax on net income. Since the Commissioner of Internal Revenue published, in the same connection, a statement showing the total bonded indebtedness, it is possible to compute, with a reasonable degree of accuracy, the total property income which is paid by the leading industries of the country.

One other fact should be borne in mind throughout the analysis. The total apparent property income (interest plus dividends) does not show the real situation accurately. Out of net income are paid depreciation and amortization charges and dividends. Large funds are frequently available after dividends are paid. These are set aside under the name of "surplus"

or "undivided profits." In some instances the write-off for depreciation has been so great that the depreciation fund, at any given time, will approximate the total value of the property. In other instances, enormous surpluses are accumulated. If to these facts is added the further consideration that many properties have been rebuilt and greatly increased in value by appropriations made out of earnings, it becomes clear that the total interest and dividend payments represent but a part of the fund which will ultimately appear in the form of property income. Therefore, even in case it were possible to secure a statement of interest and dividends paid, this sum would not include the potential property incomes that have been appropriated to funds that augment property values.

### *III. Where Do Industrial Values Go ?*

Thoughtful people, wholly oblivious of the difficulties in the case, are asking themselves a number of serious questions concerned with the distribution of industrial values. The industrial processes create great masses of wealth. Who gets it? Inventions and improvements increase efficiency and facilitate production. Where do the benefits go? Society increases wealth at a rate unheard of in the past. Why are some still poor? Aside from occasional dishonesty and fraud, what happens to the great bulk of values with which the modern industrial system daily supplies the world?

A successful income study will formulate for groups of industries, and for industries generally, a tentative answer to such questions. Perhaps the matter can

be most satisfactorily stated in this concrete way. An industry adds a hundred dollars to the total value extant in society. What happens to that one hundred dollars in values after it is produced? A part of it goes to pay for services (wages and salaries); a part goes to pay for upkeep and improvement of plant; a part goes for depreciation, insurance, and taxes; a part is used to pay interest on the bonded indebtedness; and a part goes for dividends, leaving a balance, or "surplus" which is stored up against a rainy day.

The element in the problem of apportioning the hundred dollars, which is of present interest, is the part that is paid in the form of interest and dividends. The figures now available make practicable two methods of computing property income payments. In the first place, the returns derived by the Commissioner of Internal Revenue through the payment of the corporation tax, give many of the essential facts. If in addition to this computation, the separate figures for individual industries not included in the Commissioner's tables are aggregated, some idea of the total property income paid by the industries of the country may be obtained. In the second place, the Commissioner's figures may be laid aside, and all of the instances of property income payments which are available may be added together. This method will cover only a fraction of the cases included in the Report of the Commissioner of Internal Revenue. The best idea of the total payments in the form of property income will probably be secured by adding to the figures adduced by the Commissioner, such other available figures as are not included in his report.

#### IV. *The Corporation Tax Returns*

The United States Commissioner of Internal Revenue is authorized to collect a tax on the net income of corporations. The facts which come to his hand in pursuance of this duty are classified by him and tabulated in one section of his annual report. No other source contains so large a mass of facts about corporation income.

The figures as presented are susceptible of little interpretation. The facts, compiled by revenue districts, are given for five classes of corporations—financial and commercial corporations, public utilities, industrial and manufacturing corporations, mercantile corporations, and miscellaneous corporations. No classification is made as to size, and there is no analysis into smaller units than the classes, or rather the masses, above noted. The student of income statistics cannot help regretting that so valuable a body of information as that contained in the Commissioner's report, cannot be made the subject of an extended analysis. Its possibilities are immense.

The report of the Commissioner for 1913<sup>1</sup> shows totals as follows:

Total establishments.....	305,336
Capital stock.....	\$61,738,000,000
Bonded and other indebtedness..	\$34,750,000,000
Net income.....	\$ 3,832,000,000

<sup>1</sup> "Annual Report of the Commissioner of Internal Revenue," 1913. *Op. cit.*, pp. 91-102. The report for 1913 is selected because the returns are much more complete than those for 1912, when the enforcement of the corporation tax law was in a more experimental stage.

The total value of the stocks and bonds (\$96,000,000,000) is divided between stocks and bonds in the ratio of two dollars of stocks for one of bonds. The net income, or the amount that a corporation has at its disposal after all of the costs of doing business have been met, totals slightly less than \$4,000,000,000.

The total property income represented in these ninety-six billions of capitalization is equal to the interest paid on the bonds plus the dividends paid on the stock. While the amount of the interest charge may be computed with a reasonable degree of accuracy, the problem of dividend payments can be subject to estimates alone.

The "bonded and other indebtedness" (\$34,750,000,000) is a form of property which returns a regular income. At the present writing, bond issues ordinarily yield from 4 to 6 per cent., with 5 per cent. as the usual rate. Five per cent. of the total bonded indebtedness is \$1,737,500,000 or in round numbers—a billion and three-quarters.

The amount of property income paid by a third of the total capitalization of the corporations reporting to the Commissioner of Internal Revenue, is readily secured. The bonds of these corporations yield an annual property income of approximately a billion and three-quarters. The question as to the amount of dividends paid on the capital stock cannot be disposed of in any such offhand manner. There are two ways in which its solution may be broached. On the one hand, some estimate of the proportion of net income paid out in the form of dividends may be made. On the other hand, some ratio may be secured between capitalization and dividends. In either case

an appeal must be made to the more detailed figures cited by the Commissioner.

TABLE XII.—DETAILED CORPORATION TAX RETURNS FOR 1913<sup>1</sup>

	<i>Kind of Business</i>	<i>Capital Stock</i>	<i>Bonded and Other Indebted- ness</i>	<i>Net Income</i>
<i>Class A.</i> Financial and Commercial Corporations.	Banks, Trust Com- panies, Surety Com- panies, and Insur- ance Companies. (33,234)	\$3,030,809,083	\$498,612,171	\$481,622,357
<i>Class B.</i> Public Service.	Railroads, Steam- boats, Pipe Lines, Gas, Transporta- tion, Storage, Tele- graph and Tele- phone. (25,585)	\$20,816,984,793	\$19,584,132,849	\$930,387,528
<i>Class C.</i> Industrial and Manufactur- ing.	Mining, Lumber, all Manufactures, Refining, Packing and Canning. (66,122)	\$26,542,060,403	\$8,381,811,628	\$1,670,333,724
<i>Class D.</i> Mercantile.	Dealers in Coal, Lumber, Grain, and all other Merchan- dise. (67,325)	\$4,087,130,423	\$2,356,514,388	\$423,012,178
<i>Class E.</i> Miscellaneous.	Architects, Con- tractors, Hotels, Theaters. (83,070)	\$7,261,243,029	\$3,928,445,317	\$326,794,625
Total . . . . .	305,336	\$61,738,227,731	\$34,749,516,354	\$3,832,150,411

The report of the Commissioner shows a wide variation in the ratio of bonds to stocks. Among the financial institutions, the capital stock is five times the bonded indebtedness. The public service utilities report bonded indebtedness equal to capital stock. For industrial and manufacturing enterprises the bonded indebtedness is one-third of the capital stock.

It is also worth noting that the proportion of securities represented by the various classes is very different. Public service stocks and bonds make up two-fifths of the whole; industrial and manufacturing stocks and

<sup>1</sup> "Annual Report of the Commissioner of Internal Revenue," 1913. *Op. cit.*, pp. 91-102.

bonds make up a third of the whole. The other three classes cover only about a quarter of the total capitalization.

### *V. An Estimate of Dividend Payments*

While it is not possible in all cases to secure figures showing the relation between both dividends and net earnings, and dividends and capitalization, some idea may be obtained by the use of either method, or, where facts permit, of both methods, that will furnish the basis for an estimate of dividend payments.

A ninth of the corporations reporting to the Commissioner are in Class A, "Financial and Commercial Corporations." The total capital stock of these 33,234 corporations is \$3,030,809,083. What is the prevailing dividend rate for such enterprises?

The reports made by financial and commercial corporations are in such a form that it is easier to state the percentage of dividends to capital stock than to net income. Data compiled by the Comptroller of the Currency show a dividend rate for all national banks of 11.40 per cent. on capital stock.<sup>1</sup> The "Manual of Statistics," lists 1,313 banks and trust companies.<sup>2</sup> For these companies the dividend rate in 1912 was—

Under 5 per cent.	for 56 banks
From 5 to 9 per cent.	" 623 "
" 10 " 14 " "	" 425 "
" 15 " 19 " "	" 95 "
20 per cent. and over	" 114 "
Total	1,313

<sup>1</sup> "Report of the Comptroller of the Currency," 1912. Washington, Government Printing Office, 1914, pp. 302-305.

<sup>2</sup> "Manual of Statistics," *op. cit.*, pp. 1045-1104.

The Comptroller of the Currency reports, as the outcome of a circular sent to banks throughout the country, that the dividend rate for State banks was 10.61 per cent.; for stock savings banks, 9.64 per cent.; for private banks, 14.52, and for loan and trust companies, 12.61 per cent.<sup>1</sup> Approximately one-half of the banks of each class answered the Comptroller's questions. The dividend rate for insurance companies is in the same general proportion as that for banks and trust companies. All companies reporting to the New York State Insurance Department in 1911 showed a total dividend equal to 11 per cent. of the capital stock.<sup>2</sup> Taking all of these facts into consideration, it would seem very conservative to conclude that 10 per cent., on the capital stock or \$300,000,000, was paid in annual dividends by the financial and commercial corporations listed in the Commissioner's report.

The figures for public service corporations may likewise be estimated. The railroads of the country, with a total capital stock (1912) of \$8,622,400,821, paid in dividends \$400,315,313, or 4.7 per cent. It is worth noting that in 1912 only 64.73 per cent. of the stocks paid dividends. Those stocks which did pay dividends paid an average rate of 7.2 per cent.<sup>3</sup> The rate of dividend return on two-fifths of the capitalization in Class B is therefore slightly less than 5 per cent. of the capital stock.

<sup>1</sup> "Report of the Comptroller of the Currency," 1910. Washington, Government Printing Office, 1911, p. 831.

<sup>2</sup> "The Insurance Year Book," 1911-12. New York, The Spectator Company, 1911, pp. 311-315.

<sup>3</sup> "Statistical Abstract of the United States," 1913, *op. cit.*, pp. 271-272.



The reports from telephone and telegraph companies show the following facts: The telephone companies, with a capital stock of \$586,763,879, paid \$34,120,809 in dividends (1912), or a dividend rate of 5.8 per cent.<sup>1</sup> The land and ocean telegraph systems, with a capital stock of \$163,645,810, paid \$6,180,061 in dividends, or an average rate of 3.8 per cent.<sup>2</sup> The overwhelming proportion of capital invested in telephones raises the dividend rate for these two industries well above 5 per cent.

The Census figures for municipal utilities show that central electric light and power stations, with capital stock of \$1,154,587,016 paid dividends amounting to \$34,580,872, an equivalent of 2.9 per cent.; while street and electric railways, with a capital stock of \$2,383,344,513, paid dividends of \$70,992,218, or a dividend rate of 2.9 per cent.<sup>3</sup> The data on public service corporations leads to the inference that an estimated dividend return of 4 per cent. would seem justifiable. Four per cent. on the capital stock of the public service corporations would equal approximately \$800,000,000.

The dividend returns on the capital stock of the industrial and manufacturing corporations in Class C, which, incidentally, reports a larger total of capital stock than any other class of corporations cited by the Commissioner, cannot be estimated with any degree of satisfaction. As already explained, the ratio

<sup>1</sup> "Telephones and Telegraphs," 1912, Bulletin 123, Bureau of the Census, *op. cit.*, p. 20.

<sup>2</sup> *Supra*, p. 24.

<sup>3</sup> "Central Electric Light and Power Stations and Street and Electric Railways," 1912, Census Bulletin 124, *op. cit.*, pp. 21, 97, and 113.

between capital stock and dividends, or between net income and dividends, is not at all constant from one industry to another. A reading of many corporation statements makes possible this statement: The assumption that half of the net income is paid in the form of dividends is highly conservative. It would probably be fairer to state the proportion at from two-thirds to three-quarters.

The two classes of corporations included by the Commissioner under "mercantile" and "miscellaneous" lend themselves to no analysis whatever as regards ratio between dividend payments and capital stock. Only a comparatively few of such corporations are listed in the manuals, and their reports are so fragmentary as not to warrant any generalizations whatever.

So much for the analysis of the ratio between dividends and capital stock. There remains the possibility of estimating the ratio of dividends to net income in the two largest classes cited by the Commissioner. Fortunately for the validity of the total estimate, these two classes report more than three-quarters of the total capital stock of all corporations. The ratio between net income and total revenue in Class B varies considerably from one industry to another. The net income of the American railroads cited in the Statistical Abstract as "available for dividends, adjustments, and improvements" was in 1910, \$515,738,522. Of this amount, \$293,836,863 was paid in net dividends. The ratio of dividends to net income was therefore 2 to 5, or 55.9 per cent.<sup>1</sup>

The telephone systems report a net income of

<sup>1</sup> "Statistical Abstract of the United States," 1913, *op. cit.*, p. 273.

\$51,326,325 and a total dividend payment of \$34,120,809. The proportion of dividends to net income is here 66.4 per cent.<sup>1</sup> The telegraph systems, with a net income of \$6,383,981, paid in dividends \$6,180,061, or a rate of 96.8 per cent.<sup>2</sup>

The income account for central electric light and power stations presented by the Census gives no clear statement of net incomes. For street and electric railways, however, the net income in 1912 was \$81,425,748. Of this amount, \$70,992,218, or 87.1 per cent., was paid in dividends.<sup>3</sup> These figures would make it appear that the \$800,000,000 estimated as the total dividend return from Class B corporations is somewhat high, since such a return is equal to more than four-fifths of the total net income.

There seems to be but one possible means of estimating dividend returns for Class D and Class E corporations. All of the facts available indicate that for public service corporations, and for industrial and manufacturing corporations, from two-thirds to nine-tenths of the net income is paid in the form of dividends. The total net income for corporations in Class D and Class E was \$749,806,803. If three-quarters of this net income was paid out in the form of dividends, the dividend return for these two classes of corporations would equal approximately \$550,000,000.

All of the facts derived in the course of this series of estimates may be included in a table which must be accepted as a table of estimates rather than of exactitudes.

<sup>1</sup> "Telephones and Telegraphs," 1912, *op. cit.*, p. 19.

<sup>2</sup> *Ibid.*, p. 24.

<sup>3</sup> "Central Electric Light and Power Stations," *op. cit.*, p. 97.

TABLE XIII.—DIVIDEND PAYMENTS ESTIMATED ON CORPORATION TAX RETURNS

	<i>Capital Stock</i>	<i>Estimated Rate of Dividends</i>	<i>Net Income</i>	<i>Estimated Per Cent. to Dividends</i>	<i>Total Dividends</i>
<i>Class A.</i>					
Financial and Commercial Corporations.....	\$3,030,809,083	10	\$481,622,357		\$300,000,000
<i>Class B.</i>					
Public Service.....	\$20,816,984,793	4	\$930,387,528	80	\$800,000,000
<i>Class C.</i>					
Industrial and Manufacturing....	\$26,542,060,403		\$1,670,333,724	50	\$830,000,000
<i>Class D.</i>					
Mercantile...	\$4,087,130,423		\$423,012,178	50	\$210,000,000
<i>Class E.</i>					
Miscellaneous.	\$7,261,243,029		\$326,794,625	50	\$160,000,000
Total, Estimating Classes C, D, and E at 50 per cent.....					\$2,300,000,000
Total, Estimating Classes C, D, and E at 75 per cent.....					\$2,900,000,000

Like all estimates, the ones here presented are subject to severe limitations. In the first place, they are merely crude computations from the data which in none of the instances are sufficiently extensive to warrant accurate statements. There is another serious limitation to the accuracy of the report—it refers to corporations only. While it is true that the financial and public service industries are conducted almost wholly under corporation management, only one-fourth of the manufacturing establishments are operated by corporations. To be sure, this quarter employs three-fourths of the wage-earners, and turns out nearly four-fifths of the total manufactured products.<sup>1</sup> Nevertheless, there is a considerable margin of difference between the property income from all manufacturing enterprises and property income from corporation-owned enterprises. As regards the question of corporation control in the mercantile and mis-

<sup>1</sup> "Manufactures," Thirteenth Census of the United States, 1910, Volume VIII. Washington, Government Printing Office, 1913, p. 135.

cellaneous groups listed by the Commissioner of Corporations, it is obviously impossible to form any accurate estimate, because of the lack of statistical data. Still it is in these mercantile and miscellaneous lines that the greatest number of small businesses persist.

### *VI. The Results of the Corporation Tax Figures*

Some rough estimate is now in order covering the facts brought out in the tables presented by the Commissioner of Internal Revenue. Crude as are the means which have been resorted to in deriving estimates for a part of the property income which is represented in these figures, the results possess a real significance for the student of income.

The figures relating to interest charges are as accurate as could be expected. The rate of return on bonds is so uniform that the percentage of error resulting from the use of a 5 per cent. interest rate is probably modest in the extreme. In so far as the figures presented by the Commissioner of Internal Revenue possess significance, it is probably very near the truth to say that the funded debt of the corporations reporting to the Commissioner of Internal Revenue pays a property income which amounts annually to about one and three-quarter billions of dollars.

The total amount of property income yielded by corporation securities includes the dividends paid on stock as well as the interest paid on bonds. The figures given by the Commissioner of Internal Revenue for total net income fixes the maximum of dividends. The actual amount of dividends paid must remain for the present a matter of estimate. In the case of finan-

cial institutions and public utilities, the estimate of total dividends must be fairly accurate. In the other three instances, industrial corporations, mercantile corporations, and miscellaneous corporations, the estimates degenerate into the merest guesses. Supposing that 50 per cent. of the total net income of these three classes of corporations is paid out in the form of dividends, the total dividend payments made by the corporations under consideration would equal about two and a quarter billions. If the proportion of net income devoted to dividends by these corporations reached 75 per cent., the total of dividend payments would aggregate almost three billions. The inadequate data at hand suggest that the truth lies somewhere between these two extremes.

Should the first guess prove correct, and it is surely a minimum, the total amount of property income paid by the corporations reporting to the Federal Government would equal almost exactly four billions annually. Should the latter estimate be correct, the amount would exceed four and a half billions. In either case, the total of property income paid by American corporations has reached vast proportions.

### *VII. Some Additions to the Commissioner's Figures*

The corporation figures printed by the Commissioner of Internal Revenue, as has already been stated, include only a part of the total income-paying property in the United States. Although the corporations cited are of major business significance, their securities by no means exhaust the property income possibilities.

The absence from the Commissioner's figures of those business values not included under corporate control has already been referred to. Unfortunately, the available facts do not permit of any accurate statement of the total amount of business thus overlooked. If, as has been suggested, the amount of business not counted in these figures is equivalent to fifteen or twenty billions additional, another three-quarters of a billion or perhaps a billion, would be added to the total property income paid annually by this group of industries.

The most important items in property income aside from the facts published by the Commissioner of Internal Revenue, are probably included in house rent, farm rent, interest on mortgages, and other similar charges. It is not possible in this case to make a statement of the facts. Rather a cursory summary must suffice, in view of the extreme paucity of the available data. It must be clear, however, that any items of property income paid in the form of house rent, farm rent, and the like, are in addition to the estimates of the property income already ascertained from the publications of the Commissioner of Internal Revenue.

The Census reports a total of 20,255,555 homes in the United States for 1910. Of these homes, 6,123,610 were farm homes, and 14,131,945 were other homes. The farm homes thus constituted a little less than a third of the total. The Census shows that among the fourteen million homes other than farm homes, almost two-fifths (38.4 per cent) were owned by the families living in them, while only 25 per cent were owned free of mortgages. Suppose that each of the

families living in these homes spent five hundred dollars a year. Among people whose expenditure does not exceed a thousand dollars per year, the proportion spent for rent varies from one-sixth to one-third of the total expenditure. Assume for the present purpose that the families under consideration spent a fifth of their income for rent, each of the ten million renting families would therefore be spending a hundred dollars per year for rent, and the total property returns derived by the owners of this property would be \$1,000,000,000. Out of this total, the landowner would pay for taxes, repairs, and interest on his investment, or property income. The families (nearly two million) who lived in mortgaged homes, would pay an annual interest charge. There is no way in which the amount of this payment can be approximated. A somewhat similar estimate of property income values in the case of farms, may be made from the Census figures. The total value of the land and buildings on American farms was, in 1910, \$34,000,000,000. Among the farms 42.5 per cent. owned their farms free of mortgage; 20.3 per cent. owned mortgaged farms; and 37.2 per cent. rented their farms. Consider first the rented farm, which constitute between one-third and two-fifths of the total number of farms in the country. One-third of the total value of land and buildings would be almost twelve billions of dollars. If the amount of net rent (total rent less taxes and improvements) paid by the tenant equaled 3 per cent. of the valuation, the total amount of property income paid to farm owners by renters would equal three hundred and fifty millions. The percentage of return is here set at such a low



figure as three per cent. because everywhere it is being urged that with farm land values at their present height, the farmer cannot make more than 3 per cent. on the valuation of his property. Even at that, however, the property income paid by the farmers would equal a third of a billion. The information regarding farm mortgages is accurate. There were in 1910, 1,006,511 mortgaged farms in the United States. The total amount of mortgaged debt on these farms was \$1,726,000,000. Assuming the rate of return on these mortgages to have been 6 per cent. (this is minimum rate for farm mortgages), the total property income yielded by farm mortgages would equal \$100,000,000 annually. The total public debt of \$4,850,000,000 bears interest at such a variety of rates that no accurate estimate of the property income which it yields is possible. Assuming a rate of return on this debt of 4 per cent.—a low rather than a high estimate—the public debt would yield an annual property income of about two hundred millions. The absence of facts prevents any further estimate of the property income paid to the owners of various kinds of property in the United States.

A general summary of property income payments shows that a stupendous sum goes annually to the owners of property in the United States. If to the figures published by the Commissioner of Internal Revenue are added estimates for non-corporate business; the rent paid by householders to landlords; the interest paid by householders to mortgage holders; the rent paid by farmers to landlords; the interest paid by farmers to mortgage holders; and the interest paid by public authorities to the holders of public

bonds, the total property income now paid in the United States is well above the six-billion-dollar mark.

Even the cursory reader will appreciate the fact that the estimates for property income paid are far from including all property income. They touch only the most obvious sources of property income payments.

Grant, for the sake of argument, that the annual income paid to property owners in the United States is equal to six billions a year. There are probably ten million families in the United States which spend less than \$500 a year; there are probably twelve million families in the United States, which, together, would have an annual expenditure averaging \$500. The six billions of property income would pay all of the expenses of these twelve million families, or, added to their incomes, would raise them to a level of income respectability.

The estimates on which these conclusions are based are, in every case, conservative to the last degree. The truth cannot be stated in figures, because the facts for accurate statements do not exist. Figures are used in order to make the matter concrete and real. It is neither practicable nor is it necessary to fix the amount of property income paid at six, five, or seven billions annually. The significant, vital fact is that property income payments are being made, and that these payments must be reckoned, not in hundreds of millions, but in billions. The figures for corporate bonded indebtedness published by the Commissioner of Internal Revenue, alone establish this fact. It is the fact, and not the amount that is important.

The truth about property income cannot yet be told. No one knows how much of the potential income yielding property in the United States pays property income. No one knows exactly what amount of property income is paid. That property income is paid, and in vast sums, no one will dispute.

The owners of income-yielding property, for their bare ownership, are able to take, out of the values produced by American industry, billions of dollars each year. They are not questioned as to the means by which they secured their property. They own, and their ownership yields them income.

## CHAPTER VII

### PROPERTY INCOME AND THE PRODUCERS OF WEALTH

#### *I. The Property-Service Contrast*

THE property-service contrast is valid. The facts thus far adduced have done nothing if they have not demonstrated the efficacy of the contrast between property income, on the one hand, and service income, on the other. Theoretically, the old division of income into rent, interest, wages, and profits is indefensible when applied to the economic conditions now prevailing in the United States. Practically, such a division finds no counterpart in the conduct of present-day business. There is no shadow of justification, either in theory or in practice, for the further use of this outworn terminology.

The division of total income into service income and property income meets every demand of both theory and practice. Theoretically, there is a clearly marked line of distinction between that income which is derived from the rendering of services and that which is derived from the ownership of property. Service denotes the expenditure of energy. Property ownership bespeaks a legally established right. Service and ownership are two essentially different concepts. Furthermore, an examination of the various forms of income (using that term to mean a flow of purchasing power) fails to show any share of the income fund which does not fall within this classifica-

tion. Modern accounts are so kept that the sum paid for services (compensation) is readily distinguishable from the sums paid to the owners of property (interest and dividends). The substitution of the corporate form of business organization for the one-man business and the partnership, has resulted in the virtual elimination of every form of income save these two.

## *II. The Importance of the Problem*

The contrast between property income and service income corresponds to an evident line of cleavage that is becoming more manifest with each passing decade. Property rights are being heaped skyward. The growing intelligence of the unpropertied masses leads to question, to protest, to revolt.

Economic issues are rapidly shaping themselves in a manner calculated to draw a sharp line between the recipients of service income and of property income. Overnight, in the world's history, the American people have built a huge, intricate, industrial machine, which creates pyramidal masses of wealth. A part of the net return from this wealth is turned back to those who operate the machine, while another part goes to those who own it. The workers and the owners are contending on opposite sides and with unabated vigor for a larger share of the wealth which the industrial activities of the community produce.

The rapidity with which the system of income distribution now in vogue in the United States has leaped into being, taxes the imagination. Three centuries ago there was practically no such thing as property income in the United States. Land was free; capital

was meager. There was no price on the land save a nominal one, and the tools which a man used were very frequently the product of his own handiwork. Land values and capital values were alike inconsequential.

The basis for the increase in property incomes lies first, in the increasing demand for land; second, in the increased amount of income-yielding property. Both factors are constantly operating in a growing, progressive society.

The increase of land values is inevitable in the United States. The total amount of land is limited. Each increase in the population of the country makes a greater demand for land. Each progressive advance in civilization which leads to new uses for the products of land, makes a greater demand for land. Step by step, the people of the United States are moving forward and upward along the path of developing civilization.

The inexorable character of this increase in land values becomes more evident if selected areas of land are considered. The facts are patent in the case of an Illinois farm, which sold in 1880 for \$25.00 per acre, and 1910 for \$250 per acre. The farm land (without buildings) of Iowa was valued at \$1,256,751,980 in 1900, and at \$2,801,973,729 in 1910. The land on which Boston stands was worth \$350,404,975 in 1889, and \$716,435,800 in 1913.<sup>1</sup> Greater New York reported a land valuation of \$3,367,233,746 in 1906, and of \$4 602,852,107 in 1914.<sup>2</sup> The choice

<sup>1</sup> "Annual Report of the Assessing Department for the Year 1914," p. 18.

<sup>2</sup> "Report of Commissioner of Taxes and Assessments in the City of New York," 1914, pp. 20-21.

portions of the land of the United States are rising in value. Each year adds to the power which their owners have over community earnings.

The second basis for increasing property incomes lies in the growing value of income-yielding property. The value of property in the United States is growing much more rapidly than the population. During the years for which the property values are available, they are as follows:

TABLE XIV.—INCREASE IN POPULATION AND IN CERTAIN FORMS OF WEALTH.<sup>1</sup> UNITED STATES, 1850 TO 1910

Year	Total Population (Thousands)	Total Wealth (Thousands)	Value of All Farm Property (Thou- sands)	Railroad Capitali- zation <sup>2</sup> (Thou- sands)	Manufac- tures <sup>3</sup> Total Capital (Thou- sands)
1850	23,191,876	\$ 7,135,780	\$ 3,967,000	\$ 593,000	\$ 833,245
1860	31,443,321	16,159,616	7,980,000	2,000,000	1,009,856
1870	38,558,371	30,068,518	8,945,000		1,694,567
1880	50,155,783	43,642,000	12,181,000	5,402,038	2,790,293
1890	62,947,714	65,037,091	16,082,000	10,020,925	6,525,051
1900	75,994,575	88,517,307	20,440,000	11,491,035	9,813,834
1904	82,466,551	107,104,212		13,213,125	12,675,581
1910	92,174,515		40,991,000	18,417,132	18,428,270

This comparison of the increase in population and in property values leads to some striking conclusions. The population was almost exactly four times as large in 1910 as it was in 1850. During the same six dec-

<sup>1</sup> "Statistical Abstract of the United States," 1913.

<sup>2</sup> The railroad figures for 1850 and 1860 are estimates taken from "The Development of Transportation Systems in the U. S." J. L. Ringwalt, ed. Phila., 1888, pp. 124 and 184.

<sup>3</sup> The figures from 1850 to 1900 included hand and neighborhood industries. The figures for 1904 and 1910 include factories only.

ades wealth increased fifteen times. In 1850 the wealth per capita was \$308. In 1904 it was \$1318. In other words, the per capita wealth of the country was four times as great in 1904 as it was in 1850. This is not the same thing as saying that property income was four times as great, but the facts point in that direction. Manufacturing capital, one of the most distinctive forms of income-yielding property, is thirty-five times as great in 1910 as it was in 1850. Agricultural values have risen tenfold. The increase in railroad capital amounts to threefold in the last three decades. The strides of applied science, the growth of population and the increasing wants and demands of the people have been responsible for this up-rush of American wealth.

Another factor has entered to accentuate the payments of property income, in the shape of a rising interest rate. A century ago, economists predicted a decrease in the rate of interest. Assuming that the increase in the amount of capital would automatically lower the rate of interest because of the competition among capitalists, and assuming further, a large increase in capital, they looked forward to a time when capital must go begging. Meanwhile the demand for capital has steadily increased, and so great has been this increase in demand, that even under a stable government, with the risk from fortuitous political changes largely eliminated, the rate of interest has tenced upward. Side by side with the speedy increase in the total amount of wealth, goes an increase, during recent years, in the rate of return which property owners expect for the use of the wealth.

The rapid growth of property values has accentu-



ated and emphasized the contrast between service and property income. Since the distinction between services rendered and property owned is so evident, more and more attention will, of necessity, center on the relative position of those who render services and those who own property.

Broadly speaking,—and all of the conclusions based on such data as are available, must be written in the broadest terms, with the full realization of the many exceptions that exist,—there are four characteristic features of the shares of income which are derived from the ownership of property. First, property income enjoys priority in its claims upon the proceeds of industry. Second, the vicissitudes of industry affect property income less sharply than they affect service income. Third, income-yielding property is relatively permanent. Fourth, income-yielding property exhibits a tendency to concentrate in the hands of a small fraction of the people. The total effect of these characteristics of property income is stupendous. The priority, regularity, permanence, and concentrability of property income combine to place the owners of modern income-yielding property in a position of economic security that surpasses the fondest dreams of past ages.

### *III. The Priority of Property Income*

Those who are giving their time and energy to the production of wealth, face the fact that property rights have been so construed as to give property owners a first claim on production and to make property income a fixed charge on the industry of the com-

munity. This priority of claim has played a leading part in raising property to a position of supremacy in the economic world.

The risks of industry, the burdens of economic uncertainty, and the losses incident to the dislocations of the industrial system are carried in the first instance by labor. The first appearance of hard times is followed by a decrease in the working force. The least curtailment in orders, leads to part-time work. Wage rates are not cut—that method is crude and disastrous—but men and women are laid off temporarily or permanently. Bonds still draw their interest; the dividends are paid on stocks; and labor waits for a job. The defender of property income will say at once—“If there is nothing to do, why pay labor?” The counter question is obvious. “If there is nothing to do, why pay capital?” “Ah,” respond the propertied interests, “you can get rid of the laborer by firing him, but the investment still stands.” That answer carries the essential distinction in priority between the position of the property owner and of the worker. Mines, railroads, factories, and machinery, cannot be laid off. Through good times and bad they are a fixed charge, unless the business wishes to face bankruptcy proceedings. The most important obligation of a modern business is the interest on its bonded debt. Wages and salaries may stop, but interest on bonds must continue if the business is to remain solvent.

Interest has always been looked upon as a fixed charge. Modern business is going farther and placing dividends on the same basis. Huge surpluses are used to keep dividends intact. Meanwhile, labor is

employed when times are good, and dismissed when times are bad.

Through the evolution of the industrial system, property income has become a first charge on industry. Instead of being the residual claimant, instead of taking what is left after other charges are paid, property rights have fastened themselves upon industry to such an extent that the owner of capital, like the owner of land, can demand and obtain a royalty (interest charge) which must be paid before any other claimant to income is satisfied.

Thus landowners, the owners of bonds and mortgages, and in late years, the owners of stocks as well, have saddled their property ownership claims on society. They are possessed of the vitals of present-day economic life. Armed with title deeds to natural resources and to machinery alike, they are in a position to dictate terms to the remainder of mankind. Before a tree can be cut or a ton of coal mined; before a wheel can turn or a locomotive speed along the steel pathway; before a wage-earner can raise a hand to labor for himself and his family, the property owners must be assured that they will receive a specified and assured rate of return on their holdings.

Society, for the use of the earth which was here before our forefathers came, and for the use of the machinery of production which the people of America have spent three centuries in building, must pay a royalty, or tax, to the owners of land and of machinery. The method by which the owners came into possession is scarcely brought into question. As owners, they are entitled to the first fruits.

The owners of modern income-yielding property

demand the first fruits of industrial activity. Even though they render no service to society, as owners they lay claim to a prior right to the values created in American industry.

#### *IV. The Stability of Property Income*

The priority of property income goes hand in hand with its superior stability. Each bulwarks the other.

The social forces of the nineteenth century conspired together to stabilize property income. With the rise of great funds of private property, and the development of a philosophy which gave property a first claim on the proceeds of industrial activity, people have taken it for granted that a man should live on his income. Everywhere, men and women are seeking an opportunity to retire from active life and spend the last years in ease and satisfaction. The "last years" may be from seventy to the end, or from forty-five to the end. The attitude of the individual is, in both cases, the same. The farmer, renting his place and moving into the village, where he "takes life easy" and the broker, retiring to his estate in the early fifties, are in a class. Both are in secure possession of property which yields a living income. Both are convinced that to live on this income is their right. Both rest secure in the belief that they have the most stable form of livelihood that modern life affords.

Even the head of a well-managed corporation is far less secure in his income, than is the bondholder or the stockholder. For the underlings, income is uncertain, depending, as does the wage and salary of

every man in the company's employ, upon many circumstances over which he can have no control.

The point is well illustrated by an analysis of the way in which periods of prosperity and of adversity affect the sharers of income. First, take railroad earnings. During a good year a regular rate, say 5 per cent., is paid on the bonds. The earnings being high, a dividend of 8 per cent. is paid on the stock. The general run of wages and salaries remains the same, although they are increased in a few departments. A bad year ensues. The interest on the bonds is paid at the same rate as in a good year. Earnings are low, therefore the dividends on the stock are cut from 8 to 6 per cent. There are less freight and fewer passengers to carry. No new construction work is undertaken; therefore, a quarter of the railroad employees are dropped from the pay rolls. No reduction is made in wages; the wage earner is simply denied the opportunity to earn a living. Interest must continue, else bankruptcy ensues. Dividends may be, and frequently are, cut or passed. Earnings for a considerable proportion of the employees stop absolutely. In other industries, such as textile manufacturing and coal mining, instead of dismissing employees, the establishment is worked two or three, or perhaps four, days a week, during bad times. The interest on the bonds is, of course, paid. Dividends on the stock may be passed or paid out of surplus. Wages are decreased by the simple methods of part-time work. In short, the incorporation of industry, involving the issue of stocks and bonds, creates a situation in which, during periods of prosperity, the chief advantage is derived by the stockholders; in

periods of adversity, the chief burden is borne by the employees; and year in and year out, through adversity and prosperity alike, interest is paid to bondholders. Exactly the same thing is true of the rent of land. In good years and bad years the tenants must pay the same amount. Certain forms of property income thus continue inviolate, while service income and the opportunity to earn income are dependent on the caprice of industry.

The bonds of an industrial enterprise are looked upon as the stable form of security. The development of law and of public opinion has rendered them iron-clad. The United States Commissioner of Internal Revenue reports, for the corporations coming under his purview in 1913, bonded indebtedness of \$34,749,516,354. Here is a fund, which will yield at 5 per cent. a billion and three-quarters of property income annually.

The same security which now surrounds bonds, is being gradually thrown around stock issues. In days gone by, stock issues were not taken seriously. To-day, the right to pay a six per cent. return in stock—even if the issue did not originally represent value invested—is being recognized in court decisions, in the decisions of railroad commissions, and in the attitude of industry toward income. Thus there has been effected a reversal in the relation between property claims and the claims of labor. Time was when property shouldered the give and take—the profits of industry. If there was a lean year, profits were small. They were larger in fat years. The man invested his money, took the risk involved, and was paid for it.

At present, labor shoulders the give and take of

prosperous and adverse years. When times are bad, men are laid off. Orders decrease, and part-time work automatically ensues. Meanwhile the snipping of coupons sounds at regular, unvaried intervals, and the book in which dividend checks are drawn is busy four times each year.

The man who decides to retire from active life, and live on his income, has chosen the safest course that any man in the modern world may pursue. The system of property income payment has been refined until it is almost automatic in its insistent regularity.

#### *V. The Permanence of Property Income*

The priority of the property income claims in the business world, and the many safeguards which have been thrown about property rights in order to insure their stability have given to property income a relatively great permanence. The attainment of this end has been hastened by the widespread respect for property rights.

The permanence of property income is based, in the first instance, on the intimate connection which exists between property values and land values. As industry develops, less and less of the property in the world exists in terms of natural resources. At the same time, there is no escape from the fact that all property is derived originally from the land, and that the great stable property values are still land values.

The land values, in a growing community like the United States, tend constantly to increase. Each step in progress, by raising land values, gives greater permanence to property values generally. The eco-

conomic movements incident to national development result automatically in the increased permanence of property income.

The advent of the corporation gave an ideal foothold for the property interests. Corporate values, published and divided into shares, acquired a permanence which the individual business could never have held. The perpetual life of the corporation, the possibility of drawing into its organization a great body of investors, the increase in the size, and therefore in the relative importance of the corporate business, all tended to make corporate property values permanent.

The movement toward the permanence of property values has been universally furthered by the granting of numerous, long-term franchises. That whole body of business, classed as public utilities,<sup>1</sup> are operated under special grants and special licenses which have done as much as any other single thing to immortalize property investments. The franchise has really become a public guarantee of the permanence of property values.

Other forms of special privilege have had a like influence in making property values permanent. Copyrights, and patents, freely used by large interests, have been employed to place in the hands of the property owners a sure source of income permanence.

Modern business practice has wielded an immense influence in the direction of property permanence.

<sup>1</sup> The United States Commissioner of Internal Revenue reports the total values of the Public Utilities bonds as \$20,817,000,000, and of the stocks as \$19,584,000,000. ("Annual Report for 1913," p. 93.)



A thousand dollars, once invested, is virtually immortal, unless it is stolen, or disposed of in some extra-legal way. Depreciation, amortization, insurance, and special surplus-fund charges throw around income-earning property, a large guarantee of safety. Any failure in the perpetuity of the property values is due to inadvertence or impotence in the property interests. For centuries, the thought and effort of the business world have been directed toward the increasing permanence of property rights.

The efforts of the propertied interests have been exerted to good purpose. The public mind, the laws and constitutions, the forms of judicial practice—in short, all of the social forces that were of advantage have been bent to the guarantee of property income permanence.

Granted the continuance of the present system of property, the student trembles to think of the task in store for the toiler of the future. Each year, beside producing wealth in sufficient quantities to provide for himself and his family, he must devote a large portion of his energies to the provision of income for the owners of a vast, and ever growing body of immortalized property rights and interests.

Men look with pretended aversion toward the Feudal System—an organization of society under which the nobility and the priestcraft, through the control of the natural resources (agricultural land) were able to live upon the efforts of the great mass of the people. It is time to turn from the perspective of history to the realities of the present-day economic organizations. Here, in the twentieth century civilization of the Western World is an economic system

which automatically turns into the coffers of those who control the natural resources (forests, ore, coal, fertile land) an endless stream of wealth. As rent ate up the fruits of a man's energy under feudalism, interest and dividends do likewise under the modern system of industrialism, which has given to income-yielding property a permanence that rivals that of the estate held by the mediæval landlord.

#### *VI. The Tendency of Property Income to Concentrate*

There is one further feature of the property-income situation which cannot be dismissed without a word of comment—that is the tendency of property income to concentrate in the hands of a small group of the population. The tendency is revealed by the record of wealth distribution in every society about which history contains a page. It is present, no one can say with what momentum, in the United States to-day.

The present system of property ownership places no limitation on the amount of income-yielding property which one individual may control. The Rockefellers, Guggenheims, and Carnegies may secure title to an estate of a hundred-thousand, a hundred-million, or a hundred-billion. There is nothing in the custom or law of the land to check such a procedure, and in the course of the undertaking business practice affords every conceivable advantage. The modern property-owning world is organized on the assumption that every man has a right to as much property as he can get. Under the circumstances, it is not strange that there has been a very considerable concentration of property ownership in a comparatively few hands.

The rapidity with which large fortunes have been

acquired is one of the wonders of the modern world. At the present time, the United States numbers its millionaires by thousands. The mere mention of such names as Vanderbilt, Gould, Astor, Rockefeller, Morgan, Havemeyer, Belmont, Whitney, Goelet, Carnegie, Armour, Harriman, and Dupont (all of them families numbered among the multi-millionaires whose wealth was acquired, for the most part, since the Civil War), calls to mind the immense concentration of income-yielding property which has been going on within the past half century. The industrial system is intertwined with a device known as private property in income-yielding wealth, which leads inevitably to the concentration of property income in the hands of a comparatively small portion of the population.

There have been many attempts—none of them satisfactory—to measure the distribution of wealth in the United States in such a way as to show its exact concentration. The most widely quoted of these efforts, that of Charles B. Spahr, led to the conclusion that of the 12,500,000 families in the United States in 1890, 11,000,000 owned less than \$5,000 worth of property. The aggregate wealth of these families, Spahr estimated at nine billions. Among the remaining families, 1,375,000 were credited with property varying from \$5,000 to \$50,000, and aggregating twenty-three billions. The last 125,000 families had property exceeding \$50,000, but the aggregate of this property was thirty-three billions<sup>1</sup>—an amount equal to the total property held by the other 12,375,000 families.

<sup>1</sup> "Present Distribution of Wealth in the United States," Charles B. Spahr. New York, 1896, p. 66.

The figures cited by Spahr are estimates based upon an intensive study made in a restricted section of the country. Roughly, they correspond with later work done by Spahr, and with the income returns for England and Prussia. As a practical working basis they are valueless; as a suggestion of the extent to which wealth has been concentrated, they lend additional color to the general belief that the major portion of property-income returns are handed over to a comparatively small group of the population.

The exact figures showing the concentration of property values are unobtainable, and of no great moment in the present discussion. The tendency of income-yielding property to concentrate in a relatively small number of hands is evident on every side. The extent of the concentration cannot be ascertained with accuracy.

### *VII. The Position of the Producers*

The position of the recipients of property income is relatively secure. Their claims enjoy priority, stability, and permanency. Their property tends to attract other property, thereby augmenting the incomes of individual property owners. What can be said for those who render the services upon which the industrial system so largely depends?

Those who render services, by engaging in productive activity, make up the human element in the industrial mechanism. They supply the energy—the distinctively human contribution. Their hands, legs, backs, nerves, and muscles; their physical and intellectual powers, are devoted to the creation of the

things that the world needs and uses. From laborer to director; from mechanic to engineer; from clerk to manager, the men and women engaged in rendering services, devote themselves to the production of economic goods.

Those who render services give the best of their energy and the major portion of their free time to the tasks which they perform. Even in the industries where the working day has been reduced to eight hours, if the time necessary to get to and from work is taken into consideration, the man or woman, working at a steady position, has, after the deduction of nine or nine and a half hours for time at work, time used in going to and coming from work, and lunch time, not more than fifteen hours for eating, sleeping, and the other necessary routine of life. If eleven hours are allowed for this routine, there remain four free hours in each working day. The eight-hour day is still the exception rather than the rule. There are many industries where the working day is eleven and a few in which it is twelve hours. For such industries, the free time in a working day practically vanishes.

A great portion of these rendering services literally devote their adult lives to labor. As individuals, they are submerged in the services which they render in exchange for their daily bread.

Over against the priority, stability, permanence, and contentrability of property income, the student of income facts is compelled to set the paucity, the social inadequacy, the economic inadequacy, the rigidity, and the frightful instability of service income. The contrast, squarely made between the relative position of those who receive property income and

those who receive service income, is startling in its vividness. The position of the great body of those who render services is unmeasurably less secure than the position of the great body of those who live upon property income.

### *VIII. The Paucity of Service Income*

The actual amounts paid to the men and women who do the work of the industrial world, are extremely small. Current wage rates placed side by side with the expense accounts of thousands of families whose sole claim to income rests upon their ownership of property are startling in their paucity. Five hundred dollars paid to an able-bodied man whose back was bent three hundred days of the year in his efforts to support a wife and four small children; seven dollars a week to the anæmic man whose eye races, with his machine, along the seams of ladies' coats; fifteen dollars a week to a mechanic, keeping a family in a big city; a thousand dollars a year to a skilled artisan—these wage rates, reviewed in detail in Chapter IV, make the hastiest pause to consider. They are insignificant when contrasted with the returns to the families which own the valuable property of the country.

Each year, enormous payments are being made to the owners of property in the United States in return for their bare ownership. At the same time, the workers, whose efforts are responsible for bringing these values into being, receive in many cases, returns which sound like mere pittance.

More than nine-tenths of those who are at work in

organized industry are clerks or wage-earners. Among male clerks and wage-earners, an annual return of \$1,000 is exceptional, while \$1,500 is almost unique. Almost the entire male wage-earning population receives less than \$1,500 per year; most of it receives less than \$1,000; and nearly half of it falls under \$600. The incomes of women fall far below those of men. At the same time, the owners of property receive an annual income of many billions. The facts adduced in the present investigation tend to show more than six billions of property income—a sum sufficient to support the 12 million poorest families in the United States on their present level of existence, or to add \$300 per year to the income of every family in the United States. The amount now paid in property income, distributed among the producers, would probably raise every family income in the United States to a level of decency or efficiency.

#### *IX. The Social Insufficiency of Service Income*

There are two ways in which the sufficiency of service income may be judged. On the one hand, the question may be asked—"Is the service income adequate to provide, for those dependent upon it, a decent living—that is, a living that is considered adequate in a given community and under given circumstances?" There is another question of equal significance—"Will the service income enable the recipient to pay his running expenses and to look out for the future in terms of up-to-date business practice?" Although one of these questions relates primarily to the family or social side of life and the other to the

business or economic side of life, neither can be ignored in a consideration of the sufficiency of service income.

Looking at the matter from the standpoint of the consumer, the important question regarding a given income may be stated in the terms—"What will it buy?" For the purposes of the present discussion, it is necessary to go back one step, and to ask—"What is it expected to buy?"

Perhaps the greatest single question that arises in connection with service income, relates to the adequacy of service income to provide a decent living for the family of the man rendering services. At the present time, in the United States, the incomes paid to a considerable portion of the adult males rendering services, are insufficient to insure decent family living.

Two distinct problems present themselves in a consideration of living standards. There is first the problem of bare subsistence; second, the problem of a "normal," "decent" or "fair" standard of living. The problem of a normal or fair standard of living is an essentially different one from the problem of a minimum or subsistence standard. In contrasting the minimum standard and the fair standard, the author of a recent Federal report states—"The minimum standard is a standard of living so low that one would expect few families to live on it. It will be conceded that a standard of living upon which people are to live must include many things that are not allowed by the minimum standard. It must be a standard that provides not only for physical efficiency but allows for the development and satisfaction of human attributes. Just what is to be included in such a



standard depends upon the people to whom it is applicable. Manifestly, a standard that would be considered fair by a laboring man would not appear fair to a financier. Those possessing different degrees of wealth have come to look upon different things as essential to their manner of life."<sup>1</sup> A minimum standard will keep body and soul together. A fair standard will maintain the health and efficiency of a family, and insure it against physical deterioration, poverty and misery.

The items entering into a minimum and a fair standard of living have been worked out in considerable detail,<sup>2</sup> and their cost estimated for different cities. Most of the studies have aimed to ascertain the cost of a fair standard of living for a family of five—a man, wife, and three children under fourteen.

The Chapin study, made for the avowed purpose of determining the cost of a fair standard, is thus summarized—"An income of \$900 or over probably permits the maintenance of a normal standard, at least so far as the physical man is concerned." Regarding incomes below \$900, Dr. Chapin makes the following statement—"Whether an income between \$800 and \$900 can be made to suffice is a question

<sup>1</sup> "Woman and Child Wage-Earners in the United States," Senate Doc. No. 645, 61st Congress, 2d Session. Washington, Government Printing Office, 1911, Vol. XVI, p. 142.

<sup>2</sup> "Woman and Child Wage-Earners," *op. cit.*; "The Standard of Living Among Workingmen's Families in New York City," R. C. Chapin, New York, Charities Publication Committee, 1909, p. 245; "Wages and Family Budgets in the Chicago Stock Yards District," J. C. Kennedy and others, University of Chicago Press, 1914; and "Financing the Wage Earner's Family," *op. cit.*, Chapter 2.

to which our data do not warrant a dogmatic answer." <sup>1</sup>

One other less complete, but highly satisfactory study has been made of standards of living in the Stock Yards District of Chicago. After an exhaustive investigation of which a rather complete analysis appears in published form, the investigators report that the minimum amount necessary to support a family of five efficiently in the Stock Yards District is \$800 per year. <sup>2</sup>

There have been several other investigations and estimates, less complete and less conclusive, which lead to the same general conclusion, namely—that where such investigations have been made in the industrial cities of the northeastern United States, the cost of a decent standard of living for a family consisting of a man, wife and three young children, varies from \$750 to \$1000.

A comparison between these amounts which are apparently necessary to provide the necessities and the decencies of life, and the wages paid to adult males, leads inevitably to the conclusion that, at the present rates of service income, a considerable number of wage-earners are unable to give their families even the necessities, not to speak of the decencies of life. Many radical readjustments must be effected before the service incomes now paid to large numbers of workers, bear the marks of social adequacy.

<sup>1</sup> "The Standards of Living Among Workingmen's Families in New York City, *op. cit.*, p. 246.

<sup>2</sup> "Wages and Family Budgets in the Chicago Stock Yards District," *op. cit.*, p. 80.

*X. The Economic Inadequacy of Service Income*

The question regarding the adequacy of service income to provide a decent living has a counterpart in the question regarding its adequacy to cover the needs generally accepted by modern business practice. The first question relates to the worker as a consumer, and a member of a family; the second relates to him as a producer and an efficient factor in the industrial system.

Cease for a moment to think of the worker as a human being, vitalized in terms of individual impulse and social association, and look upon him as a part of the mechanism which produces a livelihood for mankind. Whether the worker is compared to an individual machine, like a loom, delivery wagon, office desk; or to an individual plant like a cotton mill, retail store, steel plant, the economic significance of the matter is the same.

Business accounting has been reduced to a rather definite form. The detail of practice varies from one industry to another. In general terms, however, the following formula holds:

1. The total returns from receipts, sales, or earnings are called "gross receipts."

2. From gross receipts, the accountant deducts the operating expenses, or up-keep charges—raw materials, wages, and the like. Under this head fall the ordinary expenses of carrying on the business. The remainder is net earnings.

3. Gross income is the sum of net earnings and incidental income. From gross income, interest, depreciation, taxes, and interest are subtracted, leaving net income.

4. Net income, minus dividends and special appropriations, equals surplus, or unapportioned income.

The statement may appear involved to the uninitiated. In reality, it is quite simple, as appears when the principle is applied to the accounting of the United States Steel Corporation for the year 1910,<sup>1</sup> a brief of which follows:

Gross Receipts.....	\$703,961,424.41
Subtract operating charges (up-keep) and there remains	
Net Earnings.....	150,735,749.96
Subtract interest, depreciation, and sinking-fund charges, and there remains	
Net Income.....	87,407,184.82
Subtract dividends there remains	
Surplus Net Income.....	36,772,382.82
Subtract appropriations for additional property, new plants, and contract and mining royalties, and there remains	
Balance of Surplus.....	10,772,382.82
Add undivided surplus December 3, 1910, and there is,—	
Total Surplus.....	\$105,438,718.67

These figures show that after the running expenses of the business were paid, a fifth of the total receipts for the year remained. These were applied to depreciation, interest, dividends, and surplus. Meanwhile, the company was carrying a comfortable surplus of a hundred millions.

Apply this principle of accounting to the family of an ordinary wage-earner. On page seventy of

<sup>1</sup> "Report of the Commission of Corporations on the Steel Industry." Washington, 1911, Part I, pp. 330-332.

Chapin's study of "The Standard of Living in New York City," certain facts appear for the families that were receiving a "fair" wage (\$800 to \$900 per year).

1. Gross Receipts.....	\$846.26
(Total average income per family)	
2. Operating Expenses.....	804.26
(Up-keep)	
3. Gross Income.....	42.00

The up-keep of the family (food, clothes, shelter, and medicines) absorbs over 95 per cent. of the receipts. The remaining \$42.00 must cover—

1. *Depreciation.* First on the furniture and other property of the family. Second, on the earning-power of the bread-winner. Corporations charge "amortization" against mining properties. The earning-power of the bread-winner fails sooner or later no less surely than the producing power of a mine. In some trades (white lead, structural iron, and other high-risk industries) the depreciation is rapid. In either case, the charge should be sufficient to make up for lost earning-power, and to protect against hardship in old age.
2. *Interest.* The capitalist demands an interest return because he invests in a business. The worker invests his time, energy, and all of his income in his family. He, himself, represents an outlay for up-bringing, education, and the like.
3. *Dividends.* The investor demands dividends

because of the risk involved in an investment. The worker who has married and brought a family into the world on the present wage-scale, runs as great a risk as any man might conceive of.

4. *Surplus.* There should be something laid by for future exigencies. Those four requirements are to be covered, in this case, by \$42.00 for a family of five people. There is room for neither stock watering nor any other form of high finance.

Furthermore, this reasoning applies to incomes of \$2.50 to \$3.00 per working-day. Probably three-quarters of the adult male workers in American industry are paid less than that amount.

Here and there talk is rife about "high" wages. The various studies of American industrial centers have placed the cost of decent living for a man, wife, and three small children at from \$750 to \$1,000. This cost is a bare up-keep cost, and a great proportion of adult male wage-earners do not receive even that. Beyond it are charges made by every legitimate business for depreciation, interest, dividends, and surplus, which the receipts of the wage-earner will not even approach.

Strictly speaking, the great body of male American wage-earners receive no "income." They receive a wage which provides bare family up-keep. In their accounts is no mention of those stabilizing and regulative charges which modern business men have learned to demand as a right,—depreciation, interest, and dividends. Were the workers to make a study of

business bookkeeping and to apply the result of their knowledge to their own family affairs, they would find that a great majority of their family accounts would show an annual net loss or deficit. Only a small fraction of the accounts would show a net surplus after deducting legitimate fixed business charges. The business man receives "income" after he has met his running expenses and paid his fixed charges. The ordinary worker, with a family, makes, in a great majority of cases, bare running expenses.

The student of income, who is familiar with the devices employed by the business world to safeguard property investments, finds it difficult to be tolerant of those many apologists for the present economic order who insist that "labor gets all it is worth;" that "workers are paid more than enough already;" that "there are already more men who are over-paid than under-paid;" that "the real difficulty lies in the wastefulness of the working population." The utter absurdity of such comments, in the face of even a superficial examination of the points at issue, requires no comment. In considering the economic adequacy of service income, the average speaker and writer has not even attempted to apply the same rules to the safeguarding of human interests that are applied to safeguarding the interests of property.

### *XI. The Rigidity of Service Income*

Property income may be amassed, indefinitely, in the hands of one individual. Service income may not comprise more than the returns for the services of the one individual. More than that, the possibility

of securing any considerable increase in service income is woefully limited by the organization of modern industry.

Despite the current assertion that "There is plenty of room at the top," and that consequently anyone may come up from the crowded tenements into the spacious mansions whose wide flung doors invite the overburdened to an infinity of relaxation and rest, the possibilities of advancement are rigidly restricted.

Tradition, aphorisms, proverbs, and successful men to the contrary notwithstanding, the room at the top is a myth. Glance for a moment at the facts. A recent strike among the Paterson (New Jersey) silkworkers aroused considerable interest. Why did not the workers "rise" instead of striking? An appeal to the last census furnished a conclusive answer. In 1909 there were, in the silk mills of New Jersey, 306 proprietors and firm members; 518 salaried officials, superintendents, and managers; 1,256 clerks; and 30,285 wage earners. For each firm member, there were six salaried officials and clerks and ninety-three wage-earners. Granted that all of the firm members were recruited "from the ranks," each worker would have one chance in ninety-three of becoming a firm member. On a larger scale, the manufacturing industries of the entire country, employing more than seven millions of people, show a similar situation. In the cotton goods industry the proportion of wage-earners rises to 97.77 of the total of gainfully employed persons. Comparisons even more striking may be had from the railroad industry. Of the total number of employees (1,669,809) almost exactly one in three hundred is a general officer. Granted, that



all of the general officers were picked from the ranks, and that the working life of wage-earners and general officers were the same (which, by the way, they are not—the general officers living considerably longer) each employee would have one chance in three hundred of becoming a general officer.

When all is said, the organization of modern industry is such that in the absence of some outside influence such as education, or "pull," the low-skilled worker is condemned to a life of low-skilled work. Receiving a subsistence wage, he is unable to do more than make ends meet, except by living under the most abject conditions, or by exceptional management. Lacking training, capital, and surplus energy, the low-skilled worker may neither rise in industry, nor may he begin an industry of his own. Until recently free land and farm ownership offered him an alternative. To-day free land is gone. Even though land were still free, the amount of capital necessary for the proper management of a modern farm is prohibitive to the man without means or credit. The low-skilled worker may not change his lot by rising, or by striking out for himself. Barriers appear in both directions which are surmountable by the man of unusual ability and of great energy alone. To the ordinary men, the limitations which they prescribe are absolute.

Another factor must be dealt with, in the same connection. The modern plan of industrial organization which calls for four managers, superintendents and foremen, six clerks, twenty skilled men and seventy semi-skilled "machine hands" and unskilled "laborers" is almost as fatalistic for the children of the

unskilled laborers as was the Feudal system for the children of the serfs.

The wage of the unskilled father is meager, the son must leave school at fourteen to help support the family. The job which the son gets is a monotonous, non-educational, "dead-end" job, which begins his training as a low-skilled worker. His home has been wretched; his life has been lived on the street; his ideals have been low; the examples before him have not inspired him to great effort; he has been poorly fed; in short, his whole life has prepared him to follow in the footsteps of his father, and to become a low-skilled man. Thus the curse of poor training and inefficiency is handed down from father to son, through one generation after another.

The rigidity of the present economic system makes a material increase in service income unlikely, for either a man or his descendants. Arbitrary to the point of fatalism, the economic system ties the worker hand and foot to a standard of service income over which he has the most meager control.

### *XII. The Instability of Service Income*

Property income is relatively stable. Numerous and effective safeguards have been thrown around it. Despite occasional breaks in the abattis protecting property income rights, as a general rule, the defenses erected by the propertied classes have proved well-nigh impregnable.

With those receiving service income, the situation is far different. Excepting the small percentage of high-salaried workers, the great mass of those who

receive service income are forced to struggle in a sea of economic uncertainties. There are five forces, always confronting the workers, any one of which may reduce or entirely eliminate service income. They are (1) Overwork, (2) Sickness and Accidents, (3) Invention of New Machinery, (4) Shutting-down of Individual Plants, and (5) Industrial Crises.

Industry offers the workingman an opportunity to earn a living, subject to the caprice of overwork, sickness, accidents, new machinery, individual shut-downs and general suspensions of industrial activity—a hierarchy of forces which overshadow every movement of his life, threatening continually to hurl him into an abyss of hardship and misery. Anyone, or any combination of these five forces, may, at any time, diminish, temporarily or permanently, the income-earning capacity of the worker. All of them are beyond his individual control, yet they strike, with merciless certainty, the livelihood sources of the family in which they occur.

### *XIII. The Superior "Right" to Property Income*

There seems to be no escape from the conclusion that the present economic system is so organized as to throw the balance of advantage into the pockets of those who own income-yielding property. Despite the superior social value of services; despite the obvious justice of favoring the service renderers rather than the property owners, a system has been established which places a higher stamp of economic advantage upon the ownership of property than it places on the rendering of services.

A review of the facts makes the conclusion inevitable. Property income has a prior claim; is more stable and more permanent than service income. Service income is small in amount; socially and economically insufficient, rigid and unstable to the last degree. The twentieth-century economic world has given property income the right of way.

The truth regarding the relative positions of service and of property incomes is epitomized in the attitude of the modern community toward the right to service and to property income. Even where the law on the point is hazy, morality and tradition are clear cut.

There is no such thing as a "right to work" in modern society. Men talk glibly of the "right of every American citizen to work when he pleases, where he pleases, and for whom he pleases." These same gentlemen would be slow indeed to permit any citizen to enter their plants unasked, and preempt a job. Even were they regularly employing these same citizens, they would hesitate about allowing them to begin or quit work after or before regular hours. They would be still less willing to have the workers stop work on two or three days each week, or to leave the plant in a body and organize what is called a "strike." There is no real belief anywhere in the community that a man has a right to work when, where, and for whom he pleases.

A laborer may secure a job by asking for it, and making a contract with his employer to work under certain conditions. He has no "right" to work, that the employer, the courts or the public recognizes.

The modern State does guarantee all of its citizens against starvation. The poorhouse, such as it is, is

always open. There never has been and there is not now, a right to work anywhere in the United States.

While there is no right to work, there is a right to property income. The right is recognized in the courts only in a limited sense. It is universally accepted by public opinion.

Every man who has a hundred dollars feels and asserts that he has a right to interest on that money. There is scarcely an owner of income-yielding property in the United States who does not bitterly resent the statement that interest is wrong. A few property owners have been convinced but the great majority rest firm in the opinion that interest is just and that they have "a right" to interest on income-yielding property.

The practices of the community give color to this insistence on the right to property income. Anyone may go to a bank or trust company during the business hours of any day, and by making a deposit of \$100 secure the right to three dollars of interest per year. Anyone may exchange \$1,000 for a railroad bond and thus secure the right to fifty dollars of interest per year. The business world abounds in opportunities to secure income-yielding property, and apart from any abstract consideration, the present economic system enables anyone who has a sum of transferable wealth to secure an interest return on it. Whatever may be its theoretical status, property income in practice is a right.

The issue is brought out very clearly in another connection. While the courts have consistently refused to fix a minimum for service income, they have insisted on a minimum for property income. By

this distinction they have virtually placed themselves on record as approving a right to property income while they disapproved a right to service income.

The law has repeatedly refused to interfere with the conditions of labor. The laborer who made a contract to work for a dollar a day might not go before the courts and ask to have this rate increased on the ground that a dollar a day was not a fair return for ten hours of labor. To pleas of similar tenor, regarding the labor of minors, compensation for accidents and the like, the courts have replied that when the contract was made, the laborer agreed to accept the conditions of his employment. How futile, then, to protest against them! Each man, free to contract or not to contract, assumed the responsibility for the surroundings of the employment when he accepted the position. If he did not like the conditions, after trying them out, he was always at liberty to change his job.

Public opinion and legal sanction have alike refused the laborer any appeal from the amount of his wage. The fact that "freedom of contract" was a meaningless phrase, coined by legal technicians, never served as a bar to its use against those who exchanged their services for income.

Latterly, the proposal and enactment of minimum wage laws, has marked a significant change in public opinion. At least in the case of women the question of the adequacy of service income is being raised. It is not sufficient that a girl receive a "wage." She must, at the same time, receive a "living wage"—that is, one that will maintain her health and efficiency. The concept is revolutionary. Rightly

directed and generally applied, it will result ultimately in fixing a minimum service income right. Although it does not guarantee the right to work, it will guarantee a fair return for work performed.

The neglect of the courts to fix minimum standards for service income has been more than counter-balanced by the alacrity with which they have established minimum standards for property income. The work of public service and railroad commissions well illustrates this attitude.

Public service and railroad commissions were created for the purpose of curbing the predatory actions of the public utilities. They entered upon a task fraught with possibilities. Franchises, secured free or for a trifling cost, had been capitalized and sold; values had been hypothecated; stocks had been watered. In the case of many of the railroads, the bonds had been issued against the physical property, leaving the stock to represent good will and earning power. The passage of years with the increase in population and therefore in franchise and land values had raised the value of the properties. In many cases, excessive profits had been turned back into the business, capitalized, and the stock given or sold to stockholders. By the many methods known to the manipulators of corporation finance, the theoretical values had been converted into assets. Some of the railroad and public utilities commissions, appointed to represent the public interests, took a bold stand—they decided to make a physical valuation of the property of the various utilities, and to refuse to allow them to make more than a reasonable return on the ascertained physical value. The original property might have

been stolen or secured legitimately. It might represent cash invested, increased land values, or re-invested earnings. In any case, the owners of the property were entitled to a fair return on its physical value. Such decisions have been repeatedly upheld by the courts, which have gone farther, and fixed the "fair rate of return" at so much per cent.

Among the commissions, only the boldest undertook physical valuations. Even then there was scarcely a suggestion, or an act, which would indicate that the utilities had not a right to an interest return on the then physical value of the property.

The point need not be further stressed. The facts are universally known. They are not so generally understood.

The care which society takes of property income, and its comparative indifference to service income, is but another segment of the great conflict which is being vigorously waged between the owners of property and the people who work with their property and do their bidding.

#### *XIV. A Survey of the Field .*

A survey of the relative positions occupied by the recipients of service and of property income, shows that the property owners hold practically all of the strategic points. They are supported by tradition; bulwarked by custom, and protected by most of the motive forces of society. The social mind and the social structure alike have been shaped so that they would function in terms of property income rights and privileges.



Those who receive service income have the advantage of numbers and the possibilities of organized action. Many of them are convinced of the essential injustice of their position. Otherwise they are compelled to go weaponless into the conflict.

Economic forces are pushing forward the issue. They have placed on one side the majority of the population, who carry the burdens of economic society, and put forth the energy necessary to propel industry. On the other side, the economic forces have ranged a small group of persons in whose hands is concentrated the great bulk of the income-yielding wealth of the community. The forces of economic society are sharpening the contrast between service and property income, and adding daily to the irony of a status which compels workers to skimp and abstain while property owners may idle and luxuriate.

Wherever one group in a community secures large income returns without participating in the work of creating those returns, while another group in the same community carries the burden of the work and at the same time receives a meager share of the product of its labor, there, sooner or later, a conflict will arise. The conflict may be peaceful, and long drawn out, like that between the English peasantry and the English landlords, or it may be dramatic, spectacular and bloody like that between the French peasantry and their landlords. The conflict will come, however, because if there is one deep-rooted conviction in the human breast, it is that each person has a right to what he earns. Crude indeed are the definitions, and the ideas and standards for "earning" are incomplete. Always the thought is there in its most general form,

carrying with it the possibility of revolt against any economic order which denies to a man the right to his full earnings.

The economic conflict in the United States will eventually develop between property owners and the producers of wealth. There can never be an organized strife here between the serf or tenant on the one hand, and the landlord on the other. There is no such clear cut issue. A Russian serf had a definite position in society. In every way the term was significant. The American "laborer" is no such generic personage. From the lowest to the highest, the ranks of those who work in the United States are divided among a large number of professions and occupations, some of which pay princely salaries, and some of which pay the barest subsistence wages. A student of current American economic facts is forced to the conclusion that there is only one economic contrast that can be made clear cut and definite—the contrast between service income and property income; between income secured as a return for effort, and income secured in return for property ownership.

The facts in the case point clearly to the distinction between service income and property income. The line of future contrast and of future conflict is the line which separates these two ideas.

The issue, as it confronts the American people, is a very new one, which never could have arisen had conditions remained as they were a century ago. While a large proportion of the people in a community hold property, there can be no conflict over property ownership. So long as men could cross the frontier, and by taking up free land, become property owners

at will, it was impossible to stimulate interest in property income as opposed to service income. The open public domain was an effective answer to most of the objections that were directed against property ownership and property income.

The spirit engendered by property ownership exhibits itself dramatically in small, well-to-do towns, surrounded by prosperous farms. The entire population of such places look with unrelieved dread upon every proposition that in any way affects property rights. The people ask only that they be let alone, and removed from any part in the conflict which industrial development has fomented—the same industrial development which has led to the increase in town land values. Such towns with their spirit of hostility toward all propositions that look to the disturbance of property rights, typify the conditions in a society where property ownership is the rule, and not the exception. In the same proportion that property ownership is prevalent, the property spirit and the property philosophy permeates the thought of a community.

As a result of the concentration of property ownership, and of the development of property forms which automatically yield an income to the possessor, a situation has been created in which a great part of the community depends solely or largely upon the expenditures of effort as a means of securing income, while another part of the community—a smaller group—receive their income chiefly from property ownership.

Perhaps the United States has not yet reached the point where an open breach may be expected between

those who receive service income and those who receive property income. Certainly the crisis in the conflict has not yet come. Nevertheless, one who has watched the developments of the past few years—who has followed the labor movement in its larger phases, who has given ear to the undercurrents of socialistic thought and syndicalistic agitation, cannot help feeling that the United States is moving toward the crisis at breathless speed.

Nowhere in the world, perhaps, is wealth being produced in vaster amounts than it is in the United States. The country is reported prosperous. Go where one will, he will find the producers of wealth living, for the most part, in straitened circumstances. They do not starve, to be sure, but they do fight a hard, and sometimes a losing fight with those great enemies, cold and hunger. On the other hand, the family hotels, luxurious apartment houses, summer resorts, winter resorts, cruises, tours, and pleasure halls harbor thousands, many of whom have never lifted a finger toward the production of wealth, and most of whom are enjoying incomes far and away above the value of their service contributions to society.

The irony of the situation does not lie mainly in the contrast, though it is ironical enough to see the worker, skimping, and the idler, squandering. The irony of the situation lies in the accusation of extravagance, incompetence, wastefulness, inefficiency, idleness and dissipation brought by some of the recipients of property income against those who serve.

The recipients of property income are the beneficiaries of power. Behind them they have constitu-

tions, laws, customs, beliefs, philosophies, practices, and conventionalities that are ages old. They draw upon the resources of a system of social organization that has been evolving with the evolution of civilization. Their economic advantage is the direct outcome of the repressive coercive activities of vested interests all through the ages. They constitute one generation in the lineal descent of exploiters—monarchs, landlords, slave-owners, capitalists, and all of those who have devised means of living at the expense of the toil of their fellows. Those who receive incomes from property rights, hold their titles and draw their income out of the struggles which the propertied class have waged, and thus far successfully, to keep in their hands the power to tax the labor of mankind.

All historic civilizations have developed a propertied class, which enjoyed leisure and luxury. To provide this leisure and luxury, the great body of citizens, serfs and slaves labored, suffered, fought and died. The Western World has produced the most effective means ever devised (titles to transferable income-yielding property) for enabling one group in the community to live upon the work done by the others.

Perhaps the most menacing of all American institutions is the perfected organization which enables the few to live at the expense of the many. In three centuries, the United States, in company with Western civilization, has produced or at least tolerated a system which automatically takes from the values created in the industrial processes, a certain proportion, and places it in the hands of any person or any association which at that particular time happens to

hold the key which unlocks the Golden Flood—the key of property ownership. This income is not paid as a reward for virtue; people receive it who are vicious. It is not paid in return for meritorious, social service; some of those who receive it are notoriously anti-social in all of their dealings. It is not paid for abstinence; many of the recipients of property income never knew what it was to abstain. It is not paid for saving; there are people with vast incomes, who during their entire lives have never done anything except spend. It is not paid for productive effort; children, disabled persons, idlers and wastrels are among its recipients. There is one thing and one thing only, for which property income is paid, and that is the ownership of a piece of property which is so scarce and so desired by another that he is willing to give a return for the privilege of using it. To-day the ownership of property gives to the owner a royalty privilege. He may always invest it and receive five per cent. on it. It is virtually a power to tax, exercised by an individual owner of property against the productive activities of the community, and exercised because of the title deeds which the property owner holds.

The time has come when the facts must be faced honestly. Those who are convinced that the workers get all they earn, and that even if they did get more, they would squander it; those who defend property interests and property income are not interested in widows and in orphans; are not interested in bringing about an adjustment which will conform to the demands of human decency and social justice. They do not wish to know whether there is income enough

to go around, but rather whether there is income enough to pay the producers what they demand, and then, or even before then, to pay to the owners of property, a share of the products of industry in return for their property ownership. The question, as it is asked by the long-headed defenders of vested power is simply this—"Is there income enough to pay interest on the bonds of the country (some 34 billions of them) and thus keep business stable; to pay wages and salaries to the producers of wealth, and keep the world going; and to return a dividend to the owners of stocks, and where separately held, to the owners of land—to the first because of an investment of capital; to the second as a recompense for holding, as his own, a part of the earth's surface? That is the real question as it is really asked. Thus far the answer has been steadily affirmative. There have been suggestions and protests, but the question has generally met with favorable consideration.

What will be the answer to the demand of vested incomes in the future? What new note will sound in response to their proposition? What form will their proposition take?

As the country grows in population, in wealth, and in producing power, the proposition advanced by the owners of vested interests must of necessity take on a different tone. Instead of asking whether there is enough wealth created in the productive processes to pay interest dividends and rent, they must ask—"Will the producers of wealth shoulder a constantly increasing burden? These land values are rising; the amount of capital in the country per productive worker and per capita of the population is growing constantly

greater. As producers, will they carry the increased load? As consumers, will they pay the increased tax on their prices? "

Were the tax demanded by property, a fixed one, the question might be settled once and for all, but the tax is increasing, actually and proportionally, hence the new aspect which the issue assumes.

There is income enough to go around. If all those who participate in the production of wealth received an equal share of the wealth produced, the whole of American society would be able to live on a standard of splendid comfort. If even the present proportions were maintained between wages and salaries, if some were high paid and some low paid for their share in productive activity, there is income enough created to provide for every family in the United States a decent living (concretely in industrial centers, \$750 per year in moderate sized towns and \$900 to \$1,000 a year in great cities) and to pay many more families than now receive it a standard of comfort and even of luxury.

Is there income enough to go around? Indeed there is! The immediate trouble lies in the fact, not that there is not enough to go around, but that it is not made to go around.

Instead of going around, a large percentage of the values created in industry go straight into the coffers of property holders, who are, almost universally, the well-to-do. These values never even start around, but they are directed, by the self-acting system of property control, to those who own property.

Income is measured in terms of power and not in terms of worth. The masses of mankind, whose only



power lies in their numbers and their organization into effective working bodies, would do well to ponder the difference and to understand the necessity for transferring power from the few who have, to the many who need.

### *XV. The Future of the Issue*

The student will search in vain through history for a situation more fraught with destructive possibilities. The recipients of property and of service income face each other and prepare for the conflict. Those who have put forth the effort, declare their right to the products of that effort. Those who own property hold fast to their property titles and to the prerogatives which are inseparable from them.

Law, custom, and business practice have made property income a first charge on industry. There can be no considerable readjustment of income values until the preëminent position of property is overbalanced by some social action.

The present economic tendencies will greatly increase the total amount of property income and the proportion of property income paid with each passing decade. Land values will continue to rise, as population grows denser, demand for land increases, and methods of using land are perfected. The return to capital (the interest rate) shows every indication of advancing. It certainly will not decrease in the near future.

Meanwhile the immortalization of capital proceeds apace. The day when capital could be easily dissipated has passed away. Accounting systems, insur-

ance devices, depreciation funds, boards of directors, and trusteeships, conserve capital, reduce risks, distribute dangers, and in general, provide against the misadventures for which interest, at least in part, is supposed to be a recompense. When once created, capital does not disappear. Instead, every conceivable method has been devised to perpetuate it. It may even add to itself, as it frequently does, when earnings, instead of being used for the payment of dividends, are re-invested and turned directly into new capital.

The workers, meanwhile, are living, for the most part, a hand-to-mouth existence, successful if they are able to maintain health and keep up appearances. Against the value of the products, which their energy creates, is charged the property incomes for which the labor of someone must pay. To-day, the producers of wealth are saddled with an enormous property income charge which increases with each passing year—increases far faster than the increase in the population; and which, from its very nature, cannot be reduced, but must be constantly augmented.

Were there no protest from the producers of wealth, the future for capital would be a bright one. With increasing stability, increasing safety, decreasing risks, an increasing interest rate, and increasing land values, the property owners might face a prospect of unalloyed hopefulness.

Actually, no such situation exists. On the contrary, there is every indication that, with the passing years, the producers of wealth will file a protest of ever increasing volume against an economic system which automatically gives to those who already have.

While the spirit of protest grows in intensity, the

form remains a matter which future years alone may determine. An appeal to the available facts leads to the conclusion that the most effective protest the producers can make will be based on a clear recognition of the distinction between service income and property income. Shall the economic world decide that only those who expend effort shall share in the wealth, which is the result of that effort? Shall the economic world decide that each person expending effort is entitled to all the value for which his effort is responsible—no more and no less? Shall the economic world set its stamp of approval on effort, and its stamp of disapproval on parasitism, by turning the income from activity into the hands of workers, and denying income to all others? Has the time arrived when a few may no longer live in idleness upon the products created by those who give their lives to labor? Shall not the social blessing be bestowed upon those who labor and the social curse be hurled upon the idler and the wastrel? Lo! these many years has mankind looked forward to a day when economic justice could prevail. Is not this the day and this new century the seed-ground for its fulfillment?

Who shall say? Who but those who carry the burden of production, and are bound by the bonds of economic necessity to the treadmill of toil.

Could the remainder of the world view the world as the worker is forced to view it, could the favored few look upon life through the same medium of discipline and stern necessity which surrounds the spender of energy, there would be but one answer. Few indeed are they who are sincerely convinced that justice is fulfilled where the many labor and the few

enjoy. Few, even among that favored few, can face the facts unmoved.

During these dawning years of the twentieth century, where so many questions have been answered, in part, and where so many issues have been raised and laid to rest again, men and women innumerable, in every walk of life have awakened to a new realization of the realities of life. Great and small, they have turned aside from the false gods of their youthful training to a new understanding of their obligations to mankind, chief among which stands the obligation of creating an economic world in which he who expends effort shall be rewarded, while he who is unwilling to enter the workshop of life shall receive but the barest subsistence which will hold life intact. What other message save this one can the producers of wealth dispatch to the recipients of property income? All men must finally learn "the immorality and practical inexpediency of seeking to acquire wealth by winning it from another rather than by earning it by some sort of service to one's fellow men."

## APPENDICES

### APPENDIX I

WAGE RATES OF MALES, 16 YEARS OF AGE AND OVER, IN ALL INDUSTRIES  
AND IN CERTAIN INDUSTRIES EMPLOYING MORE THAN 25,000 SUCH  
MALES, 1905 <sup>1</sup>

<i>Industry</i>	<i>Total Employed</i>	<i>Per Cent. Receiving Wage Rates Per Year of Less Than</i>			
		<i>\$250</i>	<i>\$500</i>	<i>\$750</i>	<i>\$1,000</i>
All industries.....	2,124,069	8	47	79	94
Boots and Shoes.....	51,419	8	42	76	93
Bread and Bakery Products..	44,322	3	30	74	96
Carriages and Wagons.....	34,108	6	44	82	97
Cars and Shop Construction.	162,719	3	35	73	92
Cars, Steam, Railroad.....	28,984	8	48	81	95
Cotton Goods.....	86,023	20	79	96	99
Flour and Grist Mills.....	25,516	6	54	88	97
Foundry and Machine Shop..	202,174	6	40	73	94
Furniture.....	47,016	8	54	86	97
Iron and Steel.....	96,794	3	27	85	97
Leather.....	33,025	5	56	91	98
Locomotives.....	23,040	5	38	74	90
Lumber and Timber.....	114,896	12	65	90	97
Planing Mill Products.....	40,426	8	46	76	95
Paper and Wood Pulp.....	28,995	5	53	88	97
Printing and Publishing—					
Books and Journals.....	33,594	11	36	61	87
Printing and Publishing—					
Newspapers and Periodicals	43,927	11	38	65	81
Slaughtering and Meat Pack- ing.....	25,961	5	36	86	98
Tobacco and Cigars.....	38,702	11	41	78	95

<sup>1</sup> "Census of Manufactures," 1905—"Earnings of Wage Earners."  
Washington, Government Printing Office, 1908. Tables 67 and 68.

## APPENDIX II

WAGE RATES OF FEMALES, 16 YEARS OF AGE AND OVER, IN ALL INDUSTRIES AND IN CERTAIN INDUSTRIES EMPLOYING MORE THAN 10,000 SUCH FEMALES, 1905 <sup>1</sup>

<i>Industry</i>	<i>Total Employed</i>	<i>Per Cent. Receiving Wage Rates Per Year of Less Than</i>			
		<i>\$250</i>	<i>\$500</i>	<i>\$750</i>	<i>\$750 and over</i>
All industries.....	488,832	34	92	99	1
Boots and Shoes.....	26,033	21	77	97	3
Men's Clothing.....	24,062	32	93	99	1
Women's Clothing....	21,009	26	86	98	2
Cotton Goods.....	74,036	31	96	100	..
Hosiery and Knit Goods	26,485	33	95	100	..
Publishing Newspapers and Periodicals.....	10,954	38	90	97	3
Shirts.....	10,960	41	94	99	1
Silk and Silk Goods...	15,866	36	92	99	1
Tobacco and Cigars...	29,387	40	92	99	1
Woolen Goods.....	13,024	22	87	99	1
Worsted Goods.....	18,013	20	89	99	1

<sup>1</sup> "Census of Manufactures," 1905, *op. cit.*

## APPENDIX III

WAGES OF FEMALES, 18 YEARS OF AGE AND OVER, IN MASSACHUSETTS  
FOR ALL INDUSTRIES REPORTING THE EMPLOYMENT OF MORE THAN  
5,000 SUCH FEMALES, 1910 <sup>1</sup>

<i>Industry</i>	<i>Average Number Employed</i>	<i>Total Days Worked</i>	<i>Per Cent. Receiving Wage Rates Per Year of Less Than</i>			
			<i>\$250</i>	<i>\$500</i>	<i>\$750</i>	<i>\$1,000</i>
All industries.....	180,214	287	7	79	99	99
Boots and Shoes....	28,559	283	6	56	89	98
Boots and Shoes, Rubber.....	3,248	280	1	77	98	99
Boxes, Fancy and Paper.....	2,579	294	11	83	98	99
Carpets and Rugs...	2,455	290	5	77	100	
Clothing (Men's)....	3,011	278	7	83	98	99
Clothing (Women's)..	4,846	280	9	76	97	99
Confectionery .....	3,949	290	27	94	99	99
Corsets.....	2,170	304	16	81	99	99
Cotton Goods.....	46,843	281	6	88	99	100
Electrical Machinery	2,525	297	8	87	99	100
Hats (Straw).....	2,716	271	4	47	81	92
Hosiery and Knit Goods.....	6,435	277	12	87	99	99
Jewelry.....	2,883	287	7	76	96	99
Paper and Wood Pulp	4,451	274	6	96	99	100
Silk and Silk Goods.	2,453	280	6	66	99	100
Suspenders and Elas- tic.....	2,020	286	6	74	96	98
Woolen Goods.....	5,421	272	5	75	98	99
Worsted Goods.....	13,993	269	2	78	99	99

<sup>1</sup> "25th Annual Report of the Bureau of Statistics," 1910.  
Boston, Wright and Potter, 1912, p. 88.

## APPENDIX IV

WAGES OF FEMALES, 16 YEARS OF AGE AND OVER, IN NEW JERSEY FOR ALL INDUSTRIES AND FOR THOSE INDUSTRIES REPORTING THE EMPLOYMENT OF MORE THAN 2,000 SUCH FEMALES, 1911 <sup>1</sup>

<i>Industry</i>	<i>Average Number Employed</i>	<i>Total Days Worked</i>	<i>Per Cent. Receiving Wage Rates Per Year of Less Than</i>			
			<i>\$250</i>	<i>\$500</i>	<i>\$750</i>	<i>\$1,000</i>
All industries.....	79,497	288	17	86	98	99
Chemical Products...	2,193	304	19	94	99	99
Cigars and Tobacco..	7,365	293	30	94	99	100
Corsets.....	2,211	301	16	80	99	100
Cotton Goods.....	5,030	289	26	94	99	100
Lamps.....	4,094	285	5	80	99	100
Silk (Broad Ribbon)..	12,293	288	11	69	95	99
Thread.....	2,526	286	4	98	100	
Woolen and Worsteds	7,117	284	16	90	98	100

<sup>1</sup> "Annual Report of the Bureau of Statistics," 1911. Camden, 1912, pp. 77-121.

## APPENDIX V

WAGES OF FEMALES, 16 YEARS AND OVER, IN OKLAHOMA, ENGAGED IN ALL INDUSTRIES, 1911 <sup>1</sup>

<i>Industry</i>	<i>Total Employed</i>	<i>Per Cent. Receiving Wage Rates Per Year of Less Than</i>			
		<i>\$250</i>	<i>\$500</i>	<i>\$750</i>	<i>\$1,000</i>
All industries.....	1,369	8	84	97	99

<sup>1</sup> "Annual Report of the Department of Labor," Oklahoma, 1911-12. Warden Print, Oklahoma City, pp. 160-161.



## APPENDIX VI

WAGES OF FEMALES, 16 YEARS OF AGE AND OVER, IN KANSAS FOR ALL INDUSTRIES REPORTING THE EMPLOYMENT OF MORE THAN 100 ADULT FEMALES <sup>1</sup>

<i>Industry</i>	<i>Average Number Employed</i>	<i>Per Cent. Receiving Wage Rates Per Year of Less Than</i>			
		<i>\$250</i>	<i>\$500</i>	<i>\$750</i>	<i>\$1,000</i>
All industries.....	3,599	25	88	98	100
Bookbinding and Printing.....	957	21	89	97	100
Glass.....	146	36	100	(bet. 10 and 12)	
Slaughtering and Meat Packing.....	773	6	75	(under 15) 98	100
Soap.....	153	62	100	(only 6 over 7)	

<sup>1</sup> "Annual Report of the Bureau of Labor," 1909, pp. 77-82.

## APPENDIX VII

WAGES OF FEMALES, 16 YEARS AND OVER, IN WISCONSIN, IN ALL INDUSTRIES AND IN INDUSTRIES REPORTING THE EMPLOYMENT OF MORE THAN 1,000 FEMALES 1909 <sup>1</sup>

<i>Industry</i>	<i>Total Employed</i>	<i>Per Cent. Receiving Wage Rates Per Year of Less Than</i>			
		<i>\$250</i>	<i>\$500</i>	<i>\$750</i>	<i>\$1,000</i>
All industries.....	24,677	32	93	98	99
Boots and Shoes.....	1,776	28	85	98	99
Men's Clothing.....	2,966	14	88	99	99
Knit Goods.....	3,400	11	93	99	100
Laundries.....	1,019	22	86	99	100

<sup>1</sup> "Biennial Report of the Bureau of Labor Statistics of Wisconsin." Madison, 1911.

## APPENDIX VIII

WAGES OF FEMALES IN CALIFORNIA, IN MANUFACTURING ESTABLISHMENTS, IN 1911 <sup>1</sup>

	<i>Total Employed</i>	<i>Per Cent. Receiving Wage Rates Per Year of Less Than</i>			
		<i>\$250</i>	<i>\$500</i>	<i>\$750</i>	<i>\$1,000</i>
San Francisco.....	8,742	7	40	85	97
Los Angeles.....	5,604	8	48	89	98

<sup>1</sup> Compiled from the Statistical Tables of the Biennial Report of the California Bureau of Labor Statistics, 1911-12. Sacramento, 1912.

## APPENDIX IX

WAGES OF FEMALES IN CALIFORNIA, IN ALL ESTABLISHMENTS IN CITIES REPORTING THE EMPLOYMENT OF MORE THAN 1,000 FEMALES, 1911 <sup>1</sup>

	<i>Total Employed</i>	<i>Per Cent. Receiving Wage Rates Per Year of Less Than</i>			
		<i>\$250</i>	<i>\$500</i>	<i>\$750</i>	<i>\$1,000</i>
San Francisco.....	16,087	7	34	78	95
Los Angeles.....	11,911	10	41	83	97
Oakland.....	2,834	11	52	87	97
Sacramento.....	1,335	18	48	84	93
San Diego.....	1,006	9	50	85	98
Summary for State. ...	37,204	40	82	97	97

<sup>1</sup> Compiled from the Statistical Tables of the Biennial Report of the California Bureau of Labor Statistics, 1911-12. Sacramento, 1912.

## APPENDIX X

INCOME OF WAGE-EARNERS—RAILROADS <sup>1</sup>

<i>Class of Employees</i>	<i>All Operating Roads—1911 <sup>2</sup></i>			
	<i>Eastern District</i>	<i>Southern District</i>	<i>Western District</i>	<i>United States</i>
Station men.....	1.97	1.61	1.91	1.89
Enginemen.....	4.71	4.85	4.90	4.79
Firemen.....	2.88	2.57	3.22	2.94
Conductors.....	4.03	4.00	4.46	4.16
Other trainmen.....	2.94	2.43	3.00	2.88
Machinists.....	2.98	3.09	3.47	3.14
Carpenters.....	2.60	2.37	2.56	2.54
Other shopmen.....	2.29	1.98	2.31	2.24
Other trackmen.....	1.63	1.21	1.49	1.50
Switch tenders, crossing tenders, and watchmen.....	1.75	1.48	1.85	1.74
Employees — account floating equipment.....	2.34	1.97	2.42	2.34
All other employees and laborers..	2.08	1.88	2.18	2.08

<sup>1</sup> "Statistics of Railways in the United States," 1911, Interstate Commerce Commission. Washington, Government Printing Office, 1913.

<sup>2</sup> Does not include returns for switching and terminal companies.

## APPENDIX XI

AVERAGE ANNUAL AND AVERAGE HOURLY EARNINGS OF WOMEN WAGE-EARNERS INVESTIGATED IN RETAIL STORES, CLASSIFIED BY WEEKLY EARNINGS <sup>1</sup>

<i>Average Weekly Earnings (Wage Group)</i>	<i>Women who Worked Throughout the Year</i>			<i>All Women</i>	
	<i>Number Reporting Annual Earnings</i>	<i>Average Annual Earnings</i>	<i>Annual Earnings Divided by 52</i>	<i>Number Reporting Hourly Earnings</i>	<i>Average Hourly Earnings</i>
Under \$3.00.....	18	\$138.17	\$2.66	120	\$0.03
\$3.00—\$3.49.....	73	167.30	3.22	272	.05
\$3.50—\$3.99.....	80	189.48	3.64	231	.07
\$4.00—\$4.49.....	70	213.65	4.11	186	.07
\$4.50—\$4.99.....	95	241.21	4.64	275	.08
\$5.00—\$5.49.....	57	248.57	4.78	215	.09
\$5.50—\$5.99.....	271	293.42	5.64	620	.09
\$6.00—\$6.49.....	145	271.22	5.22	310	.09
\$6.50—\$6.99.....	260	346.47	6.66	502	.10
\$7.00—\$7.49.....	130	367.58	7.07	259	.10
\$7.50—\$7.99.....	192	393.02	7.56	332	.11
\$8.00—\$8.99.....	90	421.68	8.11	160	.13
\$9.00—\$9.99.....	19	470.91	9.10	33	.15
\$10.00—\$11.99....	28	562.20	10.81	44	.21
\$12.00—and over..	5	702.76	13.51	12	.27
Total and average for all.....	1,533	\$313.26	\$6.02	3,761	\$0.08

<sup>1</sup> "Massachusetts Report of the Commission on Minimum Wage Boards," January, 1912, House No. 1697. Wright & Potter Company, Boston, 1912 (p. 286).

## APPENDIX XII

PER CENT. OF EMPLOYEES EARNING EACH CLASSIFIED AMOUNT DURING WEEK, BY SEX  
AND AGE GROUPS—WOOLEN AND WORSTED MILLS AND COTTON MILLS <sup>1</sup>

Sex and Age Groups	Total	Employees Per Cent. Working Average		Per Cent. of Employees Earning each Classified Amount During Week					
		Less Than Amount							
		56 Hours Earned							
		During Week	During Week	Under \$5	Under \$7	Under \$10	Under \$12	Under and over	
Males, 18 yrs. and over	11,075	19.8	\$10.20	5.0	17.5	56.4	69.8	30.2	
Males, under 18 yrs. ....	1,075	20.8	6.02	12.3	80.2	98.8	99.7	.3	
Total.....	12,150	19.9	\$9.83	5.6	23.0	60.2	72.5	27.5	
Females, 18 yrs. and over	8,320	26.1	7.67	8.7	40.4	86.5	94.3	5.7	
Females, under 18 yrs. ...	1,452	29.8	6.02	17.6	77.1	98.3	99.7	.3	
Total.....	9,772	26.7	7.42	10.0	45.8	88.2	95.1	4.9	
Grand Total.....	21,922	22.9	\$8.76	7.6	33.2	72.7	85.2	17.5	

<sup>1</sup> "Report on Strike of Textile Workers in Lawrence, Mass.," in 1912; Senate Document, No. 870, 62d Congress, 2d Session. Washington, Government Printing Office, 1912, p. 74.

## APPENDIX XIII

WAGES OF MALES, 18 YEARS OF AGE AND OVER, IN MASSACHUSETTS FOR  
ALL INDUSTRIES REPORTING THE EMPLOYMENT OF MORE THAN 5,000  
SUCH MALES <sup>1</sup>

Industry	Average	Total	Per Cent. Receiving Wage			
	Number Employed	Days Worked	Less Than \$250	\$500	\$750	\$1,000
All industries.....	420,524	287	1	34	71	91
Boots and Shoes.....	54,896	283	2	22	55	82
Cotton Goods.....	56,235	281	3	63	93	97
Dyeing and Finishing						
Textiles.....	7,515	284		64	88	94
Electrical Machinery..	13,364	297	1	21	59	89
Foundry and Machine						
Shop.....	45,209	296	1	28	66	92
Furniture.....	7,167	295	1	36	77	94
Jewelry.....	5,577	287	1	23	54	80
Leather.....	12,296	282	1	40	80	96
Paper and Wool Pulp	9,322	274	1	33	82	96
Woolen Goods.....	10,804	272	2	50	88	97
Worsted Goods.....	19,153	269		50	85	92

<sup>1</sup> "25th Annual Report of the Bureau of Statistics," 1910. Boston, Wright and Potter, 1912, p. 88.

## APPENDIX XIV

WAGES OF MALES, 16 YEARS OF AGE AND OVER, IN NEW JERSEY FOR  
ALL INDUSTRIES REPORTING THE EMPLOYMENT OF MORE THAN 5,000  
SUCH MALES, 1911 <sup>1</sup>

<i>Industry</i>	<i>Average Number Employed</i>	<i>Total Days Worked</i>	<i>Per Cent. Receiving Wage Rates of Less Than</i>			
			<i>\$250</i>	<i>\$500</i>	<i>\$750</i>	<i>\$1,000</i>
All industries.....	243,753	288	2	36	71	89
Chemical Products. ...	6,736	304	2	27	75	94
Scientific Instruments. .	5,747	301	3	47	80	95
Electrical Appliances. .	7,288	296	3	38	67	88
Iron Foundries.....	9,490	287	2	39	72	92
Glass.....	7,723	238	1	50	64	71
Leather.....	6,421	296	1	28	70	87
Machinery.....	23,575	295	3	24	52	89
Oils.....	8,067	312	1	15	64	90
Metal Goods.....	7,344	293	4	47	78	92
Rubber Goods.....	7,873	284	2	44	85	97
Shipbuilding.....	5,940	298	1	29	58	89
Silk (Broad Ribbon)..	11,996	288	4	31	72	94
Silk Dyeing.....	5,746	266	1	28	90	96
Woolen and Worsted Goods.....	6,801	284	4	55	85	94

<sup>1</sup> "Annual Report of the Bureau of Statistics," 1911. Camden,  
1912, pp. 77-121.

## APPENDIX XV

WAGE RATES OF MALE WAGE-EARNERS, 16 YEARS OF AGE AND OVER  
EMPLOYED IN ALL INDUSTRIES OF OKLAHOMA AND IN THOSE INDUSTRIES  
REPORTING THE EMPLOYMENT OF MORE THAN 1,000 MALES,  
1911<sup>1</sup>

<i>Industries</i>	<i>Total Employed</i>	<i>Wage Rates Per Year of Less Than</i>			
		<i>\$250</i>	<i>\$500</i>	<i>\$750</i>	<i>\$1,000</i>
All Industries .....	17,007	1	17	68	90
Cotton Oil .....	1,484		37	94	99
Machine Shops .....	2,747	1	12	63	84
Publishing and Printing .....	1,074	7	21	50	75
Packing Plant .....	1,288		10	74	94

<sup>1</sup> "Annual Report of the Department of Labor, Oklahoma," 1911-

12. Warden Print., Oklahoma City, pp. 158-9.

## APPENDIX XVI

WAGES OF MALES, 16 YEARS OF AGE AND OVER, IN KANSAS FOR ALL  
INDUSTRIES REPORTING THE EMPLOYMENT OF MORE THAN 1,000 SUCH  
MALES, 1911<sup>1</sup>

<i>Industries</i>	<i>Average Number Employed</i>	<i>Per Cent. Receiving Wage Rates Per Year of Less Than</i>			
		<i>\$250</i>	<i>\$500</i>	<i>\$750</i>	<i>\$1,000</i>
All Industries .....	50,720	2	26	70	91
Bookbinding and Printing ....	1,723	8	30	55	80
Brick and Tile .....	1,957		36	86	96
Cars and Shop Construction ..	7,552		32	74	92
Cement .....	2,168	2	11	68	91
Coal Mining .....	7,375	3	16	46	78
Flour and Grist Mills .....	2,223	7	26	79	94
Foundries and Machine Shops	2,503	2	23	72	92
Glass Factories .....	1,862		27	55	72
Smelting and Refining .....	2,616	2	9	69	95
Slaughtering and Meat Pack- ing .....	10,913	1	37	84	96

<sup>1</sup> "Annual Report of the Bureau of Labor," 1909, pp. 77-82.



## APPENDIX XVII

WAGE RATES OF MALES IN WISCONSIN, IN ALL INDUSTRIES AND IN INDUSTRIES REPORTING THE EMPLOYMENT OF MORE THAN 5,000 MALES, 1909 <sup>1</sup>

<i>Industry</i>	<i>Total Employed</i>	<i>Per Cent. of Wage Rates Per Year of Less Than</i>				
		<i>\$250</i>	<i>\$500</i>	<i>\$750</i>	<i>\$1,000</i>	<i>\$1,500</i>
All industries.....	141,218	2	32	77	94	99
Iron.....	7,445	1	34	71	92	99
Leather.....	7,188	1	13	85	98	99
Light, Water and Power. . .	5,730	1	16	90	97	99
Lumber.....	15,103		6	87	96	98
Machinery.....	13,806	1	6	58	87	99
Paper and Pulp.....	6,051	1	7	88	96	99

<sup>1</sup> "Biennial Report of the Bureau of Labor Statistics of Wisconsin." Madison, 1911.

## APPENDIX XVIII

WAGE RATES OF MALES IN MANUFACTURING ESTABLISHMENTS IN CALIFORNIA, 1911 <sup>1</sup>

	<i>Total Employed</i>	<i>Per Cent. Receiving Wage Rates of Less Than</i>				
		<i>\$250</i>	<i>\$500</i>	<i>\$750</i>	<i>\$1,000</i>	<i>\$1,000 and over</i>
San Francisco.....	28,170	1	6	28	56	44
Los Angeles.....	23,521	1	7	36	72	28

## APPENDIX XIX

WAGE RATES OF MALES IN ALL ESTABLISHMENTS IN CITIES OF CALIFORNIA, REPORTING THE EMPLOYMENT OF MORE THAN 2,000 MALES, 1911 <sup>1</sup>

	<i>Total</i>	<i>Per Cent. Receiving Wage Rates of Less Than</i>				
		<i>Employed</i>	<i>\$250</i>	<i>\$500</i>	<i>\$750</i>	<i>\$1,000 \$1,000 and over</i>
San Francisco.....	44,079	1	7	26	54	46
Los Angeles.....	36,450	1	8	36	71	29
Oakland.....	6,934	3	8	26	60	40
Sacramento.....	3,327	3	8	23	59	41
San Diego.....	2,626	3	7	25	73	27
Summary for						
State.....	107,050	2	7	30	63	37

<sup>1</sup> Compiled from the Statistical Tables, "Biennial Report of the California Bureau of Labor Statistics," 1911-12. Sacramento, 1912.

## APPENDIX XX

ESTABLISHMENTS, WAGE-EARNERS, AND PER CENT. OF TOTAL <sup>1</sup>

<i>Establishments Employing</i>	<i>No. of Establish- ments</i>	<i>Avg. No. of Wage- earners</i>	<i>Per Cent. of Total</i>	
			<i>Estab- lish- ments</i>	<i>Wage- Earnings</i>
Total.....	268,491	6,615,046	100.0	100.0
No wage-earners.....	27,712		10.3	
1 to 5 wage-earners.....	136,289	311,704	50.8	4.7
6 to 20 wage-earners.....	57,198	640,793	21.3	9.7
21 to 50 wage-earners.....	23,544	764,408	8.8	11.6
51 to 100 wage-earners.....	10,964	782,298	4.1	11.8
101 to 250 wage-earners.....	8,116	1,258,639	3.0	19.0
251 to 500 wage-earners.....	2,905	1,006,457	1.1	15.2
501 to 1,000 wage-earners.....	1,223	837,473	0.5	12.7
Over 1,000 wage-earners.....	540	1,013,274	0.2	15.3

<sup>1</sup> Abstract of the Census, 1910, Department of Commerce and Labor, Bureau of the Census. Washington, Government Printing Office, 1913, p. 468.

## APPENDIX XXI

COMPARATIVE SUMMARY OF RAILWAY EMPLOYEES, BY CLASS AND PER  
100<sup>1</sup> MILES OF LINE OPERATED, 1901 AND 1910

Class of Employees	Total United States 1910 <sup>2</sup>		Total United States 1901	
	Per 100 Miles		Per 100 Miles	
	Number of Line		Number	of Line
General officers.....	5,476	2	4,780	2
Other officers.....	9,392	4	4,923	3
General office clerks.....	76,329	32	34,778	18
Station agents.....	37,379	16	32,294	17
Other station men.....	153,104	64	94,847	49
Enginemen.....	64,691	27	45,292	23
Firemen.....	68,321	28	47,166	24
Conductors.....	48,682	20	32,092	16
Other trainmen.....	136,938	57	84,493	43
Machinists.....	55,193	23	34,698	18
Carpenters.....	68,085	28	48,946	25
Other shopmen.....	225,196	94	120,550	62
Section foremen.....	44,207	18	33,817	17
Other trackmen.....	378,955	157	239,166	122
Switch tenders, crossing tenders, and watchmen.	44,682	19	47,576	24
Telegraph operators and dispatchers.....	42,435	18	26,606	14
Employees—account float- ing equipment.....	10,549	4	7,423	4
All other employees and laborers.....	229,806	95	131,722	67
Total.....	1,699,420	706	1,071,169	548

<sup>1</sup> "Twenty-fourth Annual Report on the Statistics of Railways in the United States," for the Year Ended June 30, 1911, Interstate Commerce Commission. Washington, Government Printing Office, 1913, p. 27.

<sup>2</sup> Does not include returns for switching and terminal companies.

## APPENDIX XXII

PER CENT. OF TOTAL RECEIPTS OF UNITED STATES STEEL CORPORATION CHARGED  
TO EACH ITEM OF EXPENSE AND PROFIT, 1902 TO 1911 <sup>1</sup>

(Compiled from Annual Reports of the U. S. Steel Corporation)

Year	Total Receipts, all Sources	Wages and Salaries	Other Manu- facturing and		General Expenses	Interest on Bonds, and Depreciation, Replacement, and Sinking		Divi- dends	Sur- plus
			Operating Expenses	Expenses		Funds	Funds		
1902....	\$569,065,902	21.2	51.1	3.2	8.6	9.9	6.0		
1903....	541,841,465	22.3	53.2	3.1	11.1	8.0	2.3		
1904....	448,162,380	22.3	56.6	3.6	10.8	5.6	1.1		
1905....	591,388,870	21.7	52.7	3.1	10.9	4.3	7.3		
1906....	705,916,790	20.9	52.3	3.3	9.6	5.0	8.9		
1907....	766,763,718	21.0	52.6	3.3	9.5	4.6	9.0		
1908....	488,094,725	24.7	50.6	4.3	11.0	7.3	2.1		
1909....	653,200,250	23.2	50.8	4.3	9.6	7.0	5.1		
1910....	709,814,593	24.7	49.9	4.2	8.9	7.1	5.2		
1911....	618,911,430	26.1	52.8	4.8	7.4	8.2	0.7		
Average									
1902-1911	\$609,316,012	22.7	52.2	3.7	9.7	6.6	5.1		

<sup>1</sup> "Report on Conditions of Employment in the Iron and Steel Industry in the United States," U. S. Bureau of Labor, 1912, Volume III. Washington, Government Printing Office, 1913, p. 274.

## APPENDIX XXIII

TOTAL EXPENDITURES OF UNITED STATES STEEL CORPORATION FOR  
WAGES AND SALARIES DURING EACH YEAR AND BALANCE OF UN-  
DIVIDED SURPLUS IN EACH YEAR AFTER PAYMENT OF DIVIDENDS <sup>1</sup>

(Compiled from Annual Reports of the U. S. Steel Corporation)

<i>Year</i>	<i>Total Wages and Salaries Paid During Year</i>	<i>Balance of Un- divided Sur- plus, Dec. 31</i>	<i>Per Cent. which Un- divided Surplus is of Wages and Salaries</i>
1902.....	\$120,528,343	\$77,874,597	64.6
1903.....	120,763,891	66,096,682	54.7
1904.....	99,778,276	61,365,446	61.5
1905.....	128,052,055	84,738,451	66.2
1906.....	147,765,540	97,720,714	66.1
1907.....	160,825,822	122,645,244	76.3
1908.....	120,570,829	133,415,214	110.7
1909.....	151,663,394	151,354,528	99.8
1910.....	174,955,139	164,143,158	93.8
1911.....	161,419,031	156,274,795	96.8

<sup>1</sup> "Report on Conditions of Employment in the Iron and Steel Industry in the United States," Volume III, U. S. Bureau of Labor, 1912. Washington, Government Printing Office, 1913, p. 277.

## APPENDIX XXIV

PRODUCT AND WAGES PAID FOR THOSE MASSACHUSETTS INDUSTRIES REPORTING A  
PRODUCT VALUED AT \$10,000,000 OR OVER IN 1910<sup>1</sup>

<i>Industry</i>	<i>Capital Invested</i>	<i>Value of Product</i>	<i>Value Added by Manufacture</i>	<i>Per Cent. of Wages to Value of Product</i>
The State.....	1,104,443,498	1,465,740,310	60,367,444	20
Boot and shoe cut stock.....	10,054,526	28,840,119	4,823,065	6
Boot and shoe findings.....	6,151,864	16,322,053	4,605,681	12
Boots and shoes.....	75,622,688	190,856,513	75,232,029	23
Boots and shoes, rubber.....	17,000,521	25,478,361	10,730,327	16
Bread and other bakery prod- ucts.....	7,365,272	23,716,640	9,060,465	13
Carpets and rugs, other than rug.....	11,523,799	13,031,615	4,405,633	20
Clothing, men's.....	7,266,375	15,627,158	6,408,433	16
Clothing, women's.....	4,055,709	11,714,278	5,061,713	22
Confectionery.....	7,481,279	16,018,277	6,228,368	13
Cotton goods.....	229,616,129	191,118,340	70,210,491	23
Dyeing and finishing textiles..	30,061,756	20,239,712	8,276,823	21
Electrical machinery, appara- tus, and supplies.....	23,391,661	32,036,393	15,683,862	32
Foundry and machine shop products.....	84,830,525	77,665,761	40,383,381	34
Furniture.....	18,205,891	13,060,508	7,255,368	31
Hosiery and knit goods.....	11,450,799	14,237,717	6,339,930	26
Iron and steel, steel works and rolling mills.....	12,194,109	12,670,839	3,542,083	17
Jewelry.....	14,426,018	15,898,425	9,891,010	29
Leather, tanned, curried, and finished.....	38,623,608	41,544,425	11,197,666	13
Liquors, malt.....	21,112,045	13,068,270	9,539,407	11
Paper and wood pulp.....	43,213,739	43,020,325	17,150,556	15
Printing and publishing, book and job.....	7,374,601	10,070,888	6,461,073	31
Rubber goods, not elsewhere specified.....	12,560,594	21,643,136	5,573,530	10
Slaughtering and meat pack- ing, wholesale.....	14,167,146	34,564,127	2,708,823	3
Woolen goods.....	27,186,489	31,264,304	12,262,745	22
Worsted goods.....	96,433,067	89,395,048	33,453,320	16

<sup>1</sup> "25th Annual Report on the Statistics of Manufactures for the Year 1910,"  
Bureau of Statistics. Boston, Wright & Potter Co., 1912, pp. 2-12.





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    Total of for United States, 121.
- Workers, Classes of, organized industry, 64.  
    Position of, and property income, 200.

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